

### 1.1.1 The Dynamic Nature of Business

#### Keywords

**Product** – A product is anything which is capable of satisfying a customer's need.

- **Physical products** – e.g. Mobile Phones, Clothing, Takeaways etc. Anything which you can physically grab

**Service**- This is an act which is carried out for you in exchange for a price. E.g. MOT on a car, Dental Treatments, hair cuts, a travel agent. All these are services. Think of a service as a non-physical item which you can not touch

### Why New Business Ideas Come About

#### Changes In Technology

Advances in technology can bring about new business ideas for example e-commerce (online shopping).

Since the invention of these businesses can operate via the internet which proves to be a cheaper way of operating a business. Small businesses can set up online via websites such as Ebay to sell their goods to the consumer.

Other changes in technology include:

- Electric cars are now a cheaper alternative to running a vehicle
- Virtual Reality (VR) gaming has made an impact recently
- Social Media – free to use and can be used by businesses to find out what the consumers want and need. This can then be used to produce products and services



## 1.1 Enterprise and Entrepreneurship

### Why New Business Ideas Come About Continued...

#### Changes In What Consumers Want

Consumers' tastes are always changing and a business must adapt to this. A business is at risk if they do not keep up with current trends. Some examples being:

- Organic
- Free range
- Sustainable
- Eco friendly products as we become more aware of our impact on the environment



#### Products Becoming Obsolete

**Obsolete** – A product that is no longer used or which is deemed out of date

Many products have become obsolete over time, below are a few examples of what products became obsolete and what they were replaced by.

- Floppy Disks replaced by USB Sticks
- Typewriter replaced by the computer
- Cassette Tapes replaced by the CD
- Video tapes replaced by the DVD
- CD players replaced by the MP3 player

When a product is obsolete it is no longer produced or available. A new product is brought into the market to replace the obsolete one.



### How New Business Ideas Come About

There are two ways in which business ideas come about they are:



#### Original Ideas

- These are ideas that have not been thought of before
- They are used to fill a gap in the market which may have been spotted. This is an idea no one has thought of before
- A business would have carried out research into the wants and needs of consumers. Based on this a product was developed.

#### Adapting Existing Ideas

A business could adapt a product by:

- Mixing and Matching existing products e.g. a fridge which has internet access
- Newer Versions of existing products e.g. updating of a games console from PS3 to PS4 to PS4 Pro.
- New versions of an old product e.g. new versions of a car
- Cheaper versions of an old product, high street fashion tends to create more affordable fashion.



### 1.1.2 Risk and Reward

**Risks** – the chance of loss or damage  
Some of the risks associated with small businesses include:

**Business Failure**- If a business fails to adapt to the current markets or to its competition it can face severe consequences such as failure. Businesses need to have a clear strategy to combat this and survive. E.g. Blockbuster video did not adapt to the digital age by offering streaming services and has since become obsolete replaced by its competitors like Netflix.

Some other reasons for business failure can include:

- Too much competition
- Insufficient demand for product
- Economic changes
- Business Rates
- Rising costs
- Taxes
- Lack of bank lending
- Running costs
- Too much red tape
- Late payments
- Cash flow issues
- Lack of resources



## 1.1 Enterprise and Entrepreneurship

### Financial Loss

Starting a new business can prove to be a financial risk for its owner. This is because they may have invested their own cash as well as assets into the business.

The owner could have unlimited liability for their business which means they could lose all of their personal assets in order to pay debts associated with the business.



### Lack Of Security

If an entrepreneur decides to leave their current job to pursue their own business this is another big risk. There is no guarantee that their business will be successful leading to lack of security

Business owners may have to pay for a mortgage and other bills associated with everyday living. Being a business owner is risky as the entrepreneur will be dependent on the business becoming a success in order to cover living costs as well as business costs.



**Rewards** - A reward is a benefit that is achieved by a business owner. This could be high product sales, it could be job satisfaction or even increased revenue. Some rewards include:

- Business Success** – this can lead to survival, growth, awards as well as increased revenue.
- Profits** – The business owner will get to keep all of the profits from the business. The profit will be split amongst partners if it is a partnership business. Although some of the profit may need to be reinvested into the business such as buying new equipment. The formula for profit is calculated by:

$$\text{Profit} = \text{Total Revenue} - \text{Costs}$$

- Independence**- Part of having your own business means that you are completely independent and the rewards of this are
  - You are your own boss
  - You get to make all business decisions
  - You can adapt the business when you like
  - Gives you a higher degree of control in the business activities



### 1.1.3. The Role Of Business Enterprise

**Business Enterprise** - the activity of providing goods and services

The role of business enterprise and the purpose of business activity can be split into 3 sections:

- To produce goods or services
- To meet customer needs
- To add value (convenience, branding, quality, design, unique selling points)

#### Purpose: To Produce Goods And Services

In order to produce goods and services there are 4 key **factors of production** which are needed:

1. **Capital** – This is the money needed to get the business started.
2. **Enterprise**- This is the owners motivation and drive to start up a successful business
3. **Labour** – This is the work / workers needed within a business
4. **Land** – This is a place to produce goods e.g. a warehouse



#### Purpose: To Meet Customer Needs

Common expectations of customers include:

- Fast, efficient and accurate service
- High quality products at a competitive price
- Friendly, helpful service to provide information and answer questions
- Prompt responses to their inquiries
- Sufficient stock to meet needs without delays
- Trained staff that can handle their questions without referring them on
- A clean shop or easy to navigate website

## 1.1 Enterprise and Entrepreneurship

### Purpose: To Add Value

**Adding value** - the difference between the price of the finished product/service and the cost of the inputs involved in making it.

E.g. new cars on the production line are being assembled by robots. The final, completed and shiny new car that comes off the production line has a value (price) that is more than the cost of the sum of the parts. Value has been added.



**Added value**



### Ways to add value

There are several different ways in which you can add value to a product/service these are:

- Branding**- build a reputation for quality, value etc. that customers are prepared to pay for. BMW cars sell for much more than Ford, even though the production costs per pair are probably pretty similar!
- Design**- Having various designs can help to provide a range of different products. E.g. different models of phones to suit different customers.
- Unique Selling Point (USP)**- these differentiate products from those of other suppliers
- Quality**- high quality, attentive personal service can make the difference between achieving a high price or a medium one
- Convenience**- customers will often pay a little more for a product that they can have straightaway, or which saves them time



### The Role Of Entrepreneurship

Being an entrepreneur includes doing the following:

#### Organises Resources

Enterprise is about creativity, taking risks, and innovation and using your initiative.

Entrepreneurs develop a business idea and then organises the factors of production to carry out the business activity. **(See first column)**

#### Makes Business Decisions

Decision-making is the process of choosing a logical choice from the available options. An entrepreneur will need to be able to make effective business decisions which will benefit their business.



#### Takes Risks

Setting up your own business is a big risk, money is invested from the start in items such as materials, employees, equipment and rent.

There is no guarantee that the products offered will be sold or be received well.

The entrepreneur reaps all the profits if a business is a success however they will also be responsible for all costs if the business fails.



## Revision Questions

*These questions are based around the previous slides. Test your knowledge to see if you can answer them!*

1. Define what is meant by a product [1]
2. Define what is meant by a service [1]
3. Define what is meant by the term obsolete [1]
4. State 3 reasons why business ideas come about [3]
5. What is the difference between adapting and idea and an original idea? [2]
6. What are some of the reasons a business could fail? [4]
7. What is a risk? [1]
8. What are the three main risks associated with business enterprise [3]
9. What is meant by unlimited liability? [1]
10. What is a reward [1]
11. What are the three main rewards of business enterprise? [3]
12. What is the formula to calculate profit? [1]
13. What is business enterprise? [1]
14. What are the 3 areas of business enterprise? [3]
15. Define the following terms [4]
  1. Land
  2. Labour
  3. Capital
  4. Enterprise
16. What is meant by the term adding value? [1]
17. What are the different ways in which you can add value? [4]
18. What are 3 characteristics in the role of an entrepreneur? [3]



## 1.1 Enterprise and Entrepreneurship

19. Which of the following is an example of a product? [1]
  - Mobile Phone
  - Haircut
  - Car Service
20. What does USP stand for? [1]
  - Unique Sales Pitch
  - Unique Selling Point
  - Unique Selling Platform
21. Which 3 of the following are ways to add value to a product? [3]
  - Branding
  - Price
  - Quality
  - Promotion
  - Convenience
22. Which of the following is a reward which can be gained by a business owner? [1]
  - Longer Working Hours
  - Job Security
  - Profit
23. Which is a risk of business enterprise? [1]
  - Longer Working Hours
  - Job Security
  - Increased Revenue
24. Which of the following are reasons why businesses fail? [4]
  - Opening Hours
  - Too Much Competition
  - Economic Changes
  - Lack Of Bank Lending
  - Running Costs
  - Sunday Trading Laws



25. Amandeep is now considering setting up his own business as a Landscape. He has researched into his local area and found there is a market for gardeners. Although there are a number of gardeners in his local area, he feels that there is still a business opportunity available. Discuss some of the implications that Amandeep will face if he were to set up his own landscape gardening business [10]

### Tips

For an essay style question use the following tips to ensure that you are maximizing your marks:

- Read through the question underlining any key points
- For these types of questions an extended answer is expected.
- Discuss both the advantages and disadvantages of the given context
- When discussing a point ensure that you contextualise your answer. This means give examples which relate to the scenario



### 1.2.1 Customer Needs

Customer needs can be split up in to 4 key areas, they are:

- Price
- Quality
- Choice
- Convenience



#### Price

The price of the products and services must be priced accurately.

Customers will tend to have a price that they would expect to pay for their goods and services.

#### Quality

The quality of the products must be of a satisfactory standard to the customer. E.g. the higher the price of a car the more you expect it to run, and not run into any faults.

#### Choice

Not all customers are the same so having a range of products will help to target a wider audience. E.g. different shades of lipsticks

#### Convenience

This is any element of customer experience that saves the customer time and effort. This could be:

- Location of a store
- Usability of a product (is it easy to use)
- Reducing time consumption
- Delivery times
- Opening hours (24 hours)



## 1.2 Spotting A Business Opportunity

### Importance Of Identifying & Understanding Customers

#### Generating Sales

A business needs to generate sales in order to survive and remain open. The ways in which businesses can generate sales is through:

- Product pricing (lowering price, sales etc.)
- Promotion (advertising through various media)
- Improving existing products (more features. E.g. the latest phones normally have added features)

#### Business Survival

If a business can not identify its customers needs then it will most likely not survive. It is important that the business can identify its customers needs

- They must find out the customers needs
- Provide a product/service that will meet these needs

Many businesses often misjudge their customers needs and this results in failure to survive.

### 1.2.2 Market Research

The purpose of market research can be split into the following:

- Identify & Understand Customer Needs – This will help to identify what the customers want, and how they can meet that need. It will also identify the types of customers.
- Identify Gaps In The Market – these are markets which may have little to no products/services available
- Reduce Risk- By finding out about the customers needs and what they expect
- Inform Business Decisions- Market research can help businesses to make more informed decisions with regards to any future plans. Research can be used to decide whether it would be a good idea to proceed with products/services.

**Market** - A market is any place where buyers and sellers meet to trade products

### Methods Of Market Research

**Primary Research**- this is data gathered by the researcher themselves. This information will not exist on the internet or in any other media. Examples include:

- Survey** e.g. to measure customer satisfaction
- Questionnaires**- open and closed questions
- Focus groups**- group of potential customers talk about the a new product or service idea
- Observations**- e.g. customer spending habits, did they take a certain route around the store?



### Secondary Research

This is research which has already been collected by somebody else. Examples include:

- Internet**- searches can be used to find research. Also information about competitors
- Market Reports**- companies like Mintel are constantly assessing change in culture, economy and society. Reports can be purchased.
- Government Reports**- Office of National Statistics provide demographic information. These can be used to make business decisions



## Types of Data

### Qualitative

This form of data is used to gain information which can not be numerically analysed. It is more aimed at gaining the thoughts about a product/service. Such as discussions in a focus group, opinions, open ended questions which have no specific answers.



### Quantitative

This is data which can be organised into graphs and charts as it gathers numerical data. E.g. multiple choice questions can be broken down into a graph form.



## Role of Social Media in Collecting Market

### Research Data

- Low cost if any compared to other methods
- Large audience
- Real time and up to date responses
- Items such as trends can be tracked on platforms such as Twitter and Facebook



## 1.2 Spotting A Business Opportunity

### The Importance Of The Reliability Of Market Research

#### Data

It is important that the data collected is accurate and up to date. Without this could lead to the business failing to launch a product or at worst not being able to survive.

The business then needs to decide if the data can reliably be applied to a wider audience. E.g. they may have had 100 responses to a survey but have thousands of customers. Will they all think the same?

### 1.2.3 Market segmentation

Breaking down a market into sub-groups is called market segmentation.

Market segmentation splits up a market into different types (segments) to enable a business to better target its products to the relevant customers.

Markets will be segmented in the following ways:

- Location-** A business may decide to sell its product in one area / country. E.g. it is more likely that the England football shirt will sell more in England than France.
- Demographics-** These are characteristics of a market. Characteristics such as race, ethnicity, gender, age, education, profession, occupation, income level, and marital status, are all typical examples of demographics that are used.
- Lifestyle-** The way of living a consumer is pursuing. This may be a combination of values attitudes, perceptions, beliefs This may also include hobbies and interests.

### Market segmentation Continued

- Income-** The population can be segmented according to their salary (e.g. £12,000, £40,000 etc.) or low income, middle income and high income. They could also look at the disposable income, this is the money left over after all bills are paid.
- Age -** Market segmentation could be by consumer age groups such as:
  - 10-15
  - 16-21
  - 22-27
  - 28-35
  - 35+

Each age group will have different needs and wants in terms of products and services.

### Market Mapping

- This is used to identify gaps in a market
- Identifies the features of competitors products
- Enables you to make your product different

In order to identify a gap in the market, it may be useful for a business to create a diagram of where competitors are on two axis (e.g. price and quality). An example of supermarkets is below:



### 1.2.4 The Competitive Environment

**Competitive Environment** – This is where a business operates in a market where other businesses are selling similar products and services. The more companies the more competitive the environment.

#### Strength and Weaknesses of Competitors

The strengths and weaknesses of the competition can be decided by the following factors:

- Price**- in a competitive environment competition may compete on price. This will lead to:
  - 1) Lower prices = lower profits
  - 2) business will have to lower costs e.g. employing less staff
  - 3) This could also start a price war



- Quality**- Businesses may compete on quality which leads to:
  - 1) A business decides to improve the quality of its products this will increase costs
  - 2) Costs increase mean less profit
  - 3) Customers may care more about the price



## 1.2 Spotting A Business Opportunity

- Location**- In a competitive market a business may decide to compete on location e.g. :
  - 1) Having a convenient location for customers e.g. close to a housing estate
  - 2) Being able to offer free customer parking
  - 3) Located close to other competition to steal customers



- Product Range**- competitors may compete on product range:
  - 1) Locating out of town so that the business can have a large store and offer a larger product range than the competition
  - 2) Providing the customers with a larger choice to suit their needs
  - 3) More range of products leads to increased costs of production



- Customer Service**- competing on customer service leads to:
  1. Retailers that provide customers with a helpful and friendly service will win their loyalty.
  2. Poor customer service will result in customers not purchasing goods repeatedly

### The Impact Of Competition On Business Decision Making

The level of competition can impact decision making e.g.:

- Should the business aim to lower prices?
- Should they increase their product range?
- Do they require more staff training to improve customer relations?
- Is more advertising required?
- Do new products need to be developed?

In order to make smart business decisions the business may require further information from market research.

### Benefits of Competition

- Improved customer service
- Improved products against competition
- Competitive pricing

### Effects of Weak Competition

Weak or no competition – Few larger firms. If there is a little or weak competition, this gives a business considerable market power.

Where a single business dominates the market And does not have any competition this is known as a **monopoly**



## Revision Questions

These questions are based around the previous slides. Test your knowledge to see if you can answer them!

1. What is the definition of a market [1]
2. Explain why the following are important to a customer's needs:
  - Price [1]
  - Quality [1]
  - Choice [1]
  - Convenience [1]
3. What is the difference between primary and secondary research? [2]
4. What is meant by market segmentation? [1]
5. What are some ways in which a market could be segmented? [4]
6. How do qualitative and quantitative data differ from each other? [2]
7. Why should a business consider using social media as a platform to promote their business / product? [4]
8. Why is it important to ensure that market research collected is reliable? [2]
9. State 3 reasons why a business would use market mapping? [3]
10. What is meant by a competitive environment? [1]
11. Explain how the following could be a strength and a weakness in a competitive market
  - Price [2]
  - Quality [2]
  - Location [2]
  - Product Range [2]
  - Customer Service [2]
12. What are 3 benefits of having competition? [3]
13. What is meant by a monopoly? [1]



## 1.2 Spotting A Business Opportunity

14. Which is a method of primary research? [1]
  - Government Reports
  - Internet Reports
  - Surveys
15. Which of the following are ways to generate sales? Pick three [3]
  - Product pricing
  - Reducing product range
  - Promotion
  - Improving existing products
16. Which is a method of qualitative data? [1]
  - Graphs
  - Focus group discussions
17. Improving the quality of a product can result in the which two of the following? [2]
  - Higher production costs
  - Lower production costs
  - Lower profits
  - Higher profits
18. Market research can be used to identify which of the following: [2]
  - Increased Risk
  - Gaps in the market
  - None of the above
19. What are the benefits for the customer of a competitive market? [1]
  - Competitive pricing
  - Lower quality product
  - Poor customer service
20. What is a monopoly?
  - When a single business dominates a market
  - When there is no market leader
  - Two businesses are most dominant in a market



## Tips

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  - For these types of questions an extended answer is expected.
  - Discuss both the advantages and disadvantages of the given context
  - When discussing a point ensure that you contextualise your answer. This means give examples which relate to the scenario
21. Jayden is thinking of opening an electronic repairs shop in his local area. Currently there are several other competitors locally who offer similar services. How would the amount of competition impact on Jayden's decision making? [10]



### 1.3.1. Business Aims & Objectives

**Aims-** the strategic goals of a business; for example to grow and expand the business

**Objectives** - specific steps; for example to increase market share by 5% over the next year

Aims and objectives can help the business to:

- Set specific targets which can measure the performance of a business
- Objectives can be used to motivate staff
- Can be used to help decision making

#### Objectives for a Start Up Business

The objectives for a start up business can be split into financial (measured in monetary terms) and non-financial objectives. See table below:

Financial	Non-Financial
<input type="checkbox"/> Survival	<input type="checkbox"/> Social Objectives
<input type="checkbox"/> Profit	<input type="checkbox"/> Personal Satisfaction
<input type="checkbox"/> Sales	<input type="checkbox"/> Challenge
<input type="checkbox"/> Market Share	<input type="checkbox"/> Independence
<input type="checkbox"/> Financial Security	<input type="checkbox"/> Control

OBJECTIVES



## 1.3 Putting A Business Idea Into Practice

### Financial Objectives (Start up business)

- Survival-** surviving the first year in order to build a customer base. This may mean low profits
- Profit-** Maximise profit by increasing revenues and decreasing costs
- Sales-** increase sales to encourage customers to repeat buy.
- Market Share** – increase market share, take business from competitors. Could be via heavy promotion.
- Financial Security-** for the entrepreneur as they may have given up their job. This means they will have bills etc. to pay which means the business must make money.



### Non- Financial Objectives (Start up business)

- Social Objectives-** some businesses trade for social or environmental purposes. These are different to a charity as social enterprises run on trade whereas a charity runs on donations.
- Personal Satisfaction-** a business owner may simply have wanted to gain personal satisfaction from owning their own business
- Challenge-** Entrepreneurs may start a business and view it as a challenge
- Independence-** An entrepreneur may want complete freedom and may not want to work for someone else
- Control** - Entrepreneurs may want more control over their own working lives. Owning a business gives flexibility in terms of; days off, holidays, working hours etc. They also get control over products and promotions for the business.

## Why Aims And Objectives Differ Between Businesses.

### Private Sector Businesses

Businesses which are not run by the government are the private sector

Their objectives are likely to be:

- Maximise profits by increasing sales and reducing costs
- Increase market share
- Expand the business

### Public Sector businesses

These are businesses run by the government like state schools, the NHS, BBC, Police etc.

Their objectives are to be:

- Meet targets
- Keep costs low

### Non-profit / Voluntary Sector

These are businesses which are classed as charities and social enterprises.

They may have objectives such as:

- Increase revenue from donations
- Reduce costs
- Help those in need



### 1.3.2 Business Revenues, Costs And Profits

#### Sales Revenue

This is the money which is coming into the business through sales of products and services. E.g. a bakery's revenue will be made up of the foods that have been sold. The formula for revenue is:

$$\text{Revenue} = \text{Price} \times \text{Quantity Sold}$$

#### Fixed Costs

These are the costs which will not change, these are costs which need to be paid even if a business makes 0 sales. E.g.:

- Rent
- Insurance
- Advertising costs

#### Variable Costs

These are costs which can change depending on the output of a business. E.g. A bakery may need more flour if they are making more cakes. Some examples of variable costs include:

- Raw Materials
- Distribution Costs
- Temporary Staff

#### Total Costs

The total costs for a business are the sum of all the fixed costs and variable costs.

$$\text{Total Costs} = \text{Fixed Costs} + \text{Variable Costs}$$



### 1.3 Putting A Business Idea Into Practice

#### Profit

Profit plays a major role in most businesses, it is the money left over once all bills and expenses have been paid. The owner can decide how to use the profits e.g. putting more money back into the business, or alternatively they can spend on advertisement.

Below are the formulas for gross and net profit.

$$\text{Gross profit} = \text{revenue} - \text{cost of goods sold}$$

$$\text{Net profit} = \text{Gross profit} - \text{expenses}$$

#### Interest

If a business needs to money it is most likely that they will opt for a loan from a bank.

However when paying the loan back to the bank they will charge interest which is a percentage on top. This is the cost of borrowing.

Below is the formula to calculate the interest percentage

$$\text{Interest \%} = \frac{\text{Total Repayment} - \text{Borrowed amount}}{\text{Borrowed amount}} \times 100$$

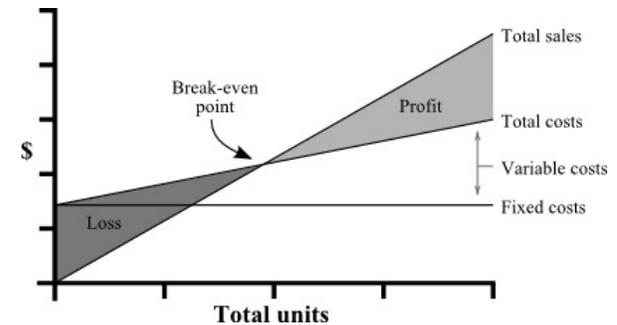


#### Break-Even

When a new business starts up there will be large costs and little revenue. The business will need to calculate their break-even, **this is the point at which the business makes neither a profit or a loss. (where total costs = total revenue)**

The formula to calculate break-even is:

$$\text{Break-Even} = \frac{\text{Fixed Costs}}{\text{Selling Price} - \text{Variable Costs (Per Unit)}}$$



#### Margin of Safety (MoS)

The difference between the actual level of output and the breakeven output.

The formula is:

$$\text{MoS} = \text{Actual sales} - \text{break-even sales}$$

The Margin of Safety

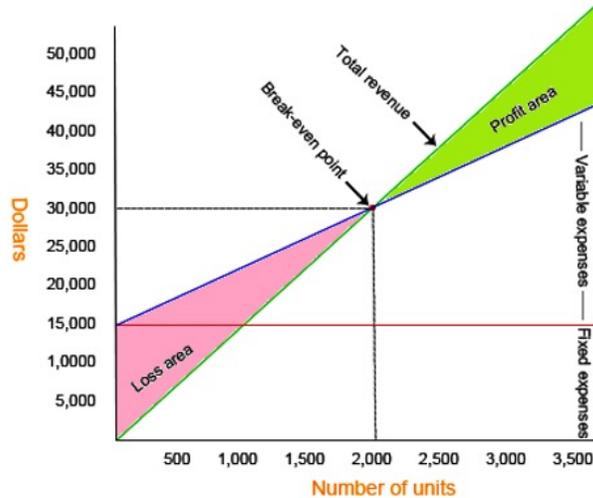
If we assume that Racing Bicycle Company has actual sales of \$250,000, given that we have already determined the break-even sales to be \$200,000, the margin of safety is \$50,000 as shown.

	Break-even sales 400 units	Actual sales 500 units
Sales	\$ 200,000	\$ 250,000
Less: variable expenses	120,000	150,000
Contribution margin	80,000	100,000
Less: fixed expenses	80,000	80,000
Net operating income	\$ -	\$ 20,000

## Interpretation Of Break-Even Diagrams

The break-even diagram is a graphical representation of costs and revenue.

The point at which neither profit nor loss is made is known as the "break-even point" and is represented on the chart below by the intersection of the two lines:



As you can see from the diagram above the break-even point for this particular business will be once 2,000 units have been sold.

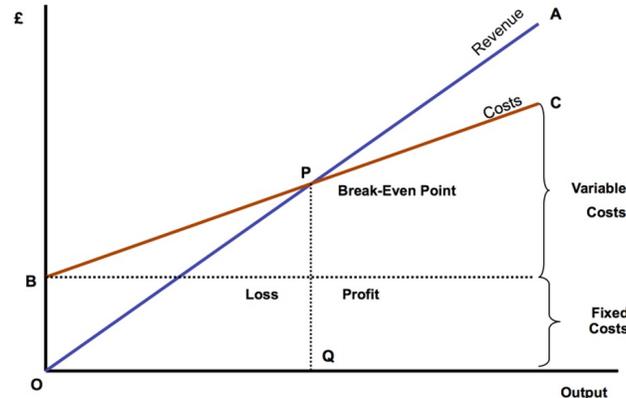
This is the point at which total costs = the total revenue.

## 1.3 Putting A Business Idea Into Practice

### Drawing Break Even Diagrams

To draw a chart the following steps need to be followed:

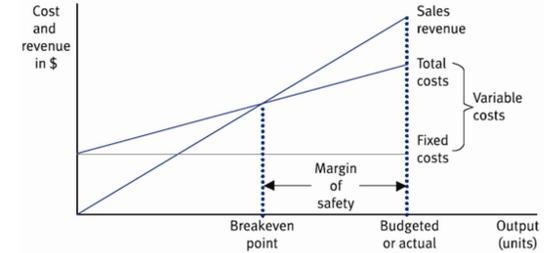
1. Label the vertical axis "Costs in pounds", label the horizontal axis " Units Sold".
2. Decide upon the scales you are to use on your chart.
3. Plot two points from the data for the sales revenue line and then draw a straight line for sales revenue
4. Draw a horizontal line for total fixed costs starting at the point on the vertical axis at the level of costs.
5. At the same starting point it is possible to draw the total costs line. Total costs are fixed costs plus variable costs. Draw the straight line starting at the same point as the fixed costs started.
6. Where the sales revenue crosses the total costs line is the break-even point. Read off the units of sales to give the break even level of sales.
7. The gap between the total costs line and sales revenue line after the breakeven point represents the level of profit.



### Margin of Safety on the Break-Even Diagram

As stated previously the margin of safety is the difference between the actual level of output and the breakeven output.

This is shown below on the break even diagram:



### Why The Margin Of Safety Is Important

The margin of safety formula is calculated by subtracting the break-even sales from the actual sales.

This formula shows the total number of sales above the breakeven point.

In other words, the total number of sales that can be lost before the company loses money.



### 1.3.3 Cash And Cash-Flow

**Cash**-money available in the business to pay the bills, cash may not come in the same month as it goes out

**Profit**- total revenue minus total costs, the money that is left once all bills have been paid.

#### **The Importance Of Cash To A Business**

Cash is very important to a business for the following reasons:

- Paying Overheads**- These are the costs of a business that do not contribute to the production or performing of a service e.g.:
  - Administration Costs
  - Accounting Costs
  - Bills (Gas, Electric Water etc.)
  - Advertising Costs
- Paying Suppliers**- suppliers are the companies which provide a business with stock or other materials e.g. wood for a furniture company. If the suppliers are not paid on time its most likely they will not supply you in the future.
- Paying Employees**- If a business doesn't pay its staff they will leave the company and possibly take legal action. Also costs will be increased to recruit new staff.
- Prevent Business Failure (Insolvency)** - Insolvency is the state of being unable to pay the money owed, by a person or company. Businesses need to make sure that its invoices are paid on time so they have cash to pay suppliers. If they run out of cash they will become insolvent.



## 1.3 Putting A Business Idea Into Practice

### **Calculation & Interpretation Of Cash-flow Forecasts**

**Cash Flow Forecast**- A Cash flow forecast predicts the net cash flows of the business over a future period. The forecast estimates what the cash inflows into the bank account and outflows out of the bank account will be. Negative numbers are represented in brackets.

**Cash Flow** – This is the money which flows in and out of the business. Some examples for a Festival are shown below:

Inflows	Outflows
<input type="checkbox"/> Sales from tickets	<input type="checkbox"/> Cost to book performers
<input type="checkbox"/> Sales from stalls	<input type="checkbox"/> Cost to hire site
<input type="checkbox"/> Sales from parking	<input type="checkbox"/> Cost of security
	<input type="checkbox"/> Cost of administration
	<input type="checkbox"/> Cost of accountants

### **Uses Of A Cash Flow Forecast**

- Allows the business to budget for the future
- Shows where businesses may have a shortfall(not enough money)
- All business to organise cash borrowing in case of a shortfall



### **Opening and Closing Balances**

The opening and closing balance is shown on a cash flow forecast.

- Opening Balance**– cash which is available at the start of the month
- Closing** - cash which is available at the end of the month (this will be the next months opening balance)

### **Minimising a shortfall**

- Cut costs
- Arrange an overdraft
- Do not give credit to customers
- Promotions
- Cheaper suppliers
- Apply for credit with suppliers

### **Example Cash flow Statement**

	August (£)	September (£)
Receipts	17 400	21 770
Raw materials	8 050	9 340
Fixed costs	2 120	2 340
Total payments	10 170	11680
Net cash flow	7230	10 090
Opening balance	5 300	12 530
Closing balance	12 530	22 620

- Receipts are the total sales for the month
- Total payments is all of your costs (fixed and raw materials in this case)
- Net cash flow is the total sales (receipts) minus the total costs
- Opening balance is your balance at the start of the month
- Closing balance is your opening balance plus your net cash flow

## Revision Questions

These questions are based around the previous slides. Test your knowledge to see if you can answer them!

1. What is the definition of an aim and objective?[2]
2. What are some of the financial objectives for a start up business?[4]
3. What are some of the non financial objectives for a start up business?[4]
4. What would be some of the aims and objectives for a business in the private sector?[3]
5. What would be some of the aims and objectives for a business in the public sector?[3]
6. What would be some of the aims and objectives for a business in the non-profit / voluntary sector?[2]
7. What is meant by a fixed cost give an example[2]
8. What is meant by a variable cost give an example [2]
9. What is meant by the margin of safety?[1]
10. What is meant when a company breaks even?[1]
11. Why is cash important to a business? [4]
12. What is the purpose of a cash flow forecast?[1]
13. What is meant by the opening and closing balances on a cash flow forecast?[2]
14. How can a business minimise its shortfalls on its forecast?[4]



## 1.3 Putting A Business Idea Into Practice

15. What is the formula to calculate revenue?[1]
  - Revenue = Price x Quantity Sold
  - Revenue = Price x Total Costs
  - Revenue = Price – Total Costs
16. What is the formula to calculate Gross Profit?[1]
  - Gross Profit = Revenue – Cost Of Goods Sold
  - Gross Profit = Net Profit – Cost Of Goods Sold
  - Gross Profit = Revenue – Margin of Safety
17. What is the formula to calculate Net Profit?[1]
  - Net Profit = Gross Profit – Expenses
  - Net Profit = Gross Profit – Total Costs
  - Net Profit = Gross Profit – Revenue
18. What is the formula to calculate Total Costs?[1]
  - Total Costs = Fixed Costs \* Variable Costs
  - Total Costs = Fixed Costs + Variable Costs
  - Total Costs = Fixed Costs - Variable Costs
19. The formula for interest is: [1]  
? – Borrowed amount  
$$\text{Interest \%} = \frac{\text{? – Borrowed amount}}{\text{Borrowed amount}} \times 100$$
  - Total Cost
  - Profit
  - Total Repayment
20. What is the formula to Break Even?[1]
  - Break Even = Fixed Costs / Selling Price – Variable Costs Per unit
  - Break Even = Total Costs / Selling Price
  - Break Even = Fixed Costs / Selling Price \* Variable Costs



## Tips

For an essay style question use the following tips to ensure that you are maximizing your marks:

- Read through the question underlining any key points
- For these types of questions an extended answer is expected.
- Discuss both the advantages and disadvantages of the given context if needed
- When discussing a point ensure that you contextualise your answer. This means give examples which relate to the scenario

21. Liat is currently trying to work out her break even point using the following data:

- Fixed Costs = £550
- Variable Costs Per Unit = £2.50
- Selling Price(Per unit) = £4.50

According to her figures she should break even after selling 300 units, Create a break even graph and explain whether Liats calculation is correct. [10]



### 1.4.1. The Options For Start Up & Small Business

#### The Concept of Liability

##### Unlimited Liability

Unlimited liability is where business debts are the responsibility of the business owner. If the owner can not pay the debts then they could have their personal assets seized (car, house).

##### Implications Of Unlimited Liability

- Unlimited liability applies to sole traders and partnerships
- Sole traders are business owners that consist of one person
- Partnerships can have up to 20 partners

##### Limited Liability

Limited liability is where you can not lose any more than you have invested into the business. No personal assets can be seized.

##### Implications Of Limited Liability

- People who own shares in a business can only lose their original investment
- Business owners can not have personal assets seized.



## 1.4 Making The Business Effective

### The Types Of Business Ownership For Start-ups

Start up business normally start up under one of three types, they are:

- Sole Trader-** Businesses which are owned by one person, they may have employees however the employees do not own the business. They have **unlimited liability** and must pay tax on all of their profits examples include:
  - Small shops
  - Plumbers, electricians, cleaners
  - Gardeners
- Partnership-** Between 2 – unlimited partners who own a business. All partners are joint owners of the business. Like a sole trader they have **unlimited liability**. Profits are shared amongst the partners to which they have put into the business. E.g. one partner who put in 50% will receive 50% of the profits compared to someone who owns 20% who will receive 20% of the profits. Examples of partnerships:
  - Doctors
  - Dentists
  - Solicitors
- Private Limited Company (Ltd.)-** This is a company made up of friends and family who buy shares in a business. Shares can not be bought by the public. Owners control who can buy shares. Money can be raised (capital) by selling more shares. Private limited companies have **limited liability** meaning only money invested will be lost.

### The Option Of Starting Up And Running A Franchise Operation

Franchising arises when a franchisor grants a licence (franchise) to another business (franchisee) to allow it trade using the brand / format. Think of it as selling a business idea. This allows a franchisee to buy a business which is already successful and is known to customers.

#### How Franchises Work

The *franchisor* (established business) offers their business for sale to a *franchisee*. This gives the franchisee the rights to sell their products and services under the same name.

There is usually a set up fee which can be costly as well as a percentage of turnover will be paid yearly to the franchisor.

#### How a Franchise can use the marketing mix

**Promotion** - The Franchisor can advertise nationally, a franchise can benefit from this  
**Price** – If it is a known brand then the franchisee can charge more for the products offered.  
**Place** – The Franchisor can help set up the new business in a good location and can help with research and architects making setting up easier.  
**Product** – the product will be already well known because of all the national advertising



## Advantages of Franchising

- Advertising on national level
- You're buying a well known brand
- Market research conducted at head office
- Less competition as the other stores are in different locations
- Brand already has a reputation
- Training and staff development provided

## Disadvantages of Franchising

- Less control of the business as most decisions made by head office e.g. what promotions to run
- You must pay royalties to the franchisor
- Can be expensive to set up

## **Key Term Summary**

**Franchisor-** A business that offers its trading name for sale. Including its products and services e.g. Dominos. A franchisor will provide:

- Training
- Equipment such as machinery or shop fittings
- Materials for products
- Trading name

**Franchisee-** This is the person who buys a franchise and can trade using the brand name.

**Royalty-** Payment made to the franchisor from the turnover of the franchise



## 1.4 Making The Business Effective

### 1.4.2 Business Location

There are numerous factors which can affect the location of a business. These include the proximity to:

- Market-** people need to be close in proximity to their customers (convenience). The location will depend on what type of business it is. An online retailer wouldn't have to be close to his market for example.
- Labour-** The business should be located where there is a supply of labour and skills easily available.
- Materials-** Business will need to think of its proximity to its materials. The closer to the materials the more convenient as well as the lower the cost of production
- Competitors-** Businesses may locate in a known area for a certain product e.g. Hatton Garden in London is known for jewellery.

### **Nature of Business Activity**

The nature of the business activity may also affect the location of the business.

For example a retail business would need to be closer to where the shoppers are. Therefore they would need parking for their customers to make it convenient.

A service e.g. hairdresser would need to be in the same area as its customers. But not necessarily need to have a premises.

A manufacturing business would need to be close to transport links to be able to supply their goods. They would also need to be in an area where labour is available as



## **Impact Of The Internet On Location Decisions**

Internet has had a major impact on the location of the business. It allows for businesses to operate online and be open to a whole new market.

New businesses can also start up easily as the set up costs are much lower than having a physical presence.

Businesses can now have a premises or alternatively operate completely online. The benefits of e-commerce are that businesses costs are significantly reduced and products can be sent out to the customers.

Businesses could operate online and have a premises which means they have both an online and physical presence. They would however incorporate more costs as they need to pay for their building as well as its bills on top of the online costs.



### 1.4.3 The Marketing Mix

The marketing mix consists of the 4 P's, these 4 P's will need to consider these when they are marketing a product. The 4 P's are:

- Product**- A business will need to make sure the product that is offered will satisfy a customer need.
- Price**- The price of the goods/services will also need to be competitive but still make a profit.
- Place**- The location of the business will need to be considered e.g. they could operate online, have a physical presence, sell goods through retailers or even a wholesaler.
- Promotion**- businesses will need to decide how to promote their product. They could use promotions like discounts (20% off), or adding value via a bundle deal.

Below is an example of how the marketing mix work together

Product	Nike Air Max
Price	£79.99
Place	Retails stores, online via nike.co.uk
Promotion	Trainers come with leather cleaner, bundle deal with extra coloured laces.



## 1.4 Making The Business Effective

### Balancing The Marketing Mix Based On The Competitive Environment

If there are lots of competition in a market, then a business may follow one of the following strategies:

- Competitive Pricing – Low pricing, and discount pricing.
- Low cost strategy- low costs will mean a product can be mass produced.
- Provide a wider range of products

### The Impact Of Changing Consumer Needs On The Marketing

Market consumers tastes are consistently changing, for example high street fashion. Customers are concerned if the products are produced ethically. This means businesses need to adapt to these changes in trends to survive.

### The Impact Of Technology On The Marketing Mix: E-commerce

E-Commerce is the act of selling goods/services online. For new businesses it's an easy way to get sales, to reach both UK-wide and international customers.

For retail businesses, an e-commerce website offers the advantage of being open 24/7 as well as a free advertising tool.



### The Impact Of Technology On The Marketing Mix: Digital Communication

Digital communication can come in various forms ranging from mobile technologies, social media, email, e-newsletters amongst others. The effect on the marketing mix is as follows:

- Product**- Online surveys and polls can be used to get feedback from customers about products as well as their wants and needs. This can then be used to create new products
- Price**- customers can easily compare prices of goods using the internet, so the pricing must be competitive or alternatively the product could be bundled with others to differentiate the products.
- Place**- The internet gives businesses a wider audience and access to a worldwide market. There are no barriers to entry such as high costs as a website can be produced at a low cost
- Promotion**- various promotion can be undertaken on the internet such as:
  - E-posters
  - Pop ups
  - Buying space on popular websites
  - Promoting on search engines
  - Banners



#### 1.4.4. Business Plans

A business plan is used to set out the plans for a business. It will explain how an entrepreneur plans to make their business a success. A business plan can be used for a bank loan as it sets out the expected cash flows of the business. The role of a business will help to identify the following:

##### Identify The Business Idea

A business plan will identify the initial concepts of the business and its main focus. For example, nike.com will have the aim of selling sportswear online.



##### Identify Business Aims And Objectives

A business plan will also outline the aims and objectives for the business and how they plan to achieve them. They should be SMART objectives (specific, measurable, achievable, realistic and time bound)



## 1.4 Making The Business Effective

### Identify Target Market

The business plan will identify the target market for the business. They will also identify how they intend to appeal to this specific market in order to gain revenue.



### Forecasting

The business plan should also provide a forecast for the business. This is the predictions for the amount of revenue, costs and profit that is expected as part of the business.

These predictions will need to be fairly accurate and provide a realistic estimate of what is expected with the business.



### Cash Flow Forecast

A business plan should also include a cash flow forecast. This will identify the inflows and outflows of the business.

The cash flow forecast should also identify any shortfalls. They will also need to identify how they plan to overcome these shortfalls.

Below is an example of a cash flow forecast. These forecasts can be used to demonstrate the profitability of the business when applying for a bank loan.

		Jan (£)	Feb (£)	Mar (£)
A	Opening balance (1 from last month)	3,000	5,750	8,550
B	Cash inflow			
C	Sales	6,000	5,500	6,750
D	Total	6,000	5,500	6,750
E	Cash outflow			
F	Materials	1,500	1,200	1,800
G	Wages	1,750	1,500	1,950
H	Total (F+G)	3,250	2,700	3,750
I	Closing balance (A+D-H)	5,750	8,550	11,550



#### 1.4.4. Business Plans Continued...

##### Identifying Sources Of Finance

A business plan will identify where they plan to obtain finances from. This can be venture capitalists, investors or family members.

Potential lenders will want to see how the business intends to grow to see if they can make a return on their investment (profit).

If more financial information has been provided it is more likely that possible investors will invest. As there is a clearer picture. A business plan will also be used to possibly obtain finances from lenders such as a bank.



##### Identifying The Location

The business plan should outline where the business will operate from, this could be a retail shop, factory, office or even a home address.



### 1.4 Making The Business Effective

#### Identifying The Marketing Mix

The business plan must also include details of how the business plans to do the following:

- Price**- How they will plan to price their products and services. They may include competitor prices here
- Product**- The products and services that will be offered by the business
- Promotion**- How the business plans to promote the products and service
- Place**- how the business will operate and where from



#### The Purpose Of Planning Business Activity

- A business plan can help to reduce the risk of failure for a start up business
- If the owner has to writes future plans and finances of the business – they will be more likely to spot a potential problem e.g. a business owner may prepare a cash flow forecast and find they need finance in certain months
- A well planed business plan will also reduce the risk of business failure. Information such as forecasts will help with this



#### Identifying Resources

A good business plan will also identify the resources needed in order to run effectively. E.g. a café would need a chef, ovens, tables, chairs, fridges etc. in order to run effectively.

##### Some Resources Are:

- Human resources**; the staff needed for a clothes shop
- Equipment**; For example scissors and a sewing machine
- Raw Materials**; for example cloth
- Technology**: such as a till
- Vehicles**; the company van used for deliveries

#### Importance Of A Business Plan to Obtain Finance

If an entrepreneur is trying to obtain finance from a bank they would want to know how they intend to pay back the loan. The bank manager in this case may review the business plan and scrutinise the forecasts to ensure that the business will be a success and that they will have enough finances to pay back the initial loan



## Revision Questions

These questions are based around the previous slides. Test your knowledge to see if you can answer them!

1. What is meant by unlimited liability? [1]
2. What are some of the implications of having unlimited liability?[3]
3. What is meant by limited liability? [1]
4. What are some of the implications of having limited liability?[3]
5. State the characteristics of the following types of business start ups:
  - Sole Trader [3]
  - Partnership [3]
  - Limited Company [3]
6. What are some factors which can influence a business' location?[4]
7. What are some of the impacts that e-commerce has had on the location of a business?[4]
8. What are some of the strategies that could be employed in a competitive environment [3]
9. What is the marketing mix? How would a business use this? [4]
10. How has the marketing mix been affected by the introduction of e-commerce / digital marketing? [8]
11. What is the purpose of a business plan? [1]
12. What items would you expect to find in a business plan? [4]
13. How would a business plan be used to apply for a bank loan? [4]
14. What factors of a business plan could be used to attract possible investors? [3]

## 1.4 Making The Business Effective

15. Which of the following describes a franchise?[1]
  - An individual setting up their own business
  - An individual trading under an existing brand name
  - 3 people setting up a business together
16. Which of the following is a characteristic of a Private Limited Company?[1]
  - The ability to sell shares on the stock market
  - Unlimited liability
  - Shares can not be bought by the public
17. What is the maximum amount of people that can be in a partnership business [1]
  - 2
  - 10
  - Unlimited
18. Which of the following is a characteristic of a Sole Trader?[1]
  - Limited liability
  - Unlimited liability
  - Shares can not be bought by the public
19. Which of the following is a resource [1]
  - Raw Materials
  - Sales
  - Revenue
20. Which of the following is NOT a raw material [1]
  - Human Resources
  - Profit
  - Equipment
  - Technology



## Tips

For an essay style question use the following tips to ensure that you are maximizing your marks:

- Read through the question underlining any key points
- For these types of questions an extended answer is expected.
- Discuss both the advantages and disadvantages of the given context
- When discussing a point ensure that you contextualise your answer. This means give examples which relate to the scenario
- Remember to give a well reasoned conclusion

Liam is ready to open up his own business selling sports footwear, he's currently thinking of setting up as a sole trader or operating under a franchise. Evaluate whether its better for Liam to set up as a sole trader or operate under a franchise [12]



### 1.5.1. Business Stakeholders

**Stakeholders – this is anyone who may have an interest in a business. They can be internal (within the business) and external (outside) to the business.**

**Internal Stakeholders-** stakeholders that are within the business itself, these include:

- ❑ **Business Owners-** This is the owner(s) who started the business up. Their interest tends to be if the business will make a profit.
- ❑ **Employees-** These are the people who work for the business owners. Their main concern could be job security to ensure they can pay for their own living expenses. Another interest would be that of a promotion
- ❑ **Managers-** Managers are a employee but they may have a further interest in if the business is making a profit. This may be to the fact that they could receive a bonus if sales targets are met.



### 1.5 Understanding External Influences On Business

**External Stakeholders-** stakeholders that are outside the business itself, these include:

- ❑ **Suppliers-** A suppliers main interest is making sure their invoices are being paid by the business on time
- ❑ **Local Community-** The main interest being whether there is a lot of pollution, noise or if the business is affecting the local business trade.
- ❑ **Government-** They are ensuring taxes are paid as well as laws are being followed e.g. Health and Safety
- ❑ **Shareholders-** They want the business to be as profitable as possible so they receive more dividends
- ❑ **Customers-** Interested if the business can provide goods and services they need at a reasonable price.
- ❑ **Pressure Groups-** they want to make sure the business is operating ethically

#### Stakeholders and Businesses

Stakeholders of a business can be affected by the activities of a business. Some examples:

Employees	can influence the success of an organisation by their productivity and efficiency in the tasks they do everyday. They can also resort to industrial action (strike) if they disagree with working conditions, pay or company policies
Suppliers	can decide whether to raise prices for orders which can obviously affect a firm's profits. Also a supplier's reliability could affect production.
Government	can influence a firm by introducing new laws that can affect operations such as the National Minimum Wage, or they can raise Corporation Tax which would eat into a firm's profits
Customers	can influence a business by deciding to continue to purchase goods and services from the organisation. They can choose to take their custom elsewhere.
Local community	can influence a business by protesting against the building of premises

#### Possible Conflicts Between Stakeholders

Stakeholders can often have conflicts which occur some of these include:

- ❑ **Employees** may want to receive a higher wage, however **shareholders** would want more profit from the business. The conflict being that profits will be affected if the employees receive a higher wage
- ❑ **Shareholders** may want to cut jobs in order to reduce costs. This will affect the **employees** as they want to keep their jobs
- ❑ **Customers** want low prices for high quality goods, but **owners** and **shareholders** will want to charge more for the higher quality products
- ❑ The **local community** will want reduced pollution and noise. This may mean an increased cost for the **business owner** therefore affecting profits for **shareholders**
- ❑ **Suppliers** may increase their prices which increases the business **owners** costs which can then lead to them charging the **customers** more for their goods
- ❑ **Shareholders** may want to invest in new machinery to make production more efficient. However **employees** may not as it could result in job cuts.



## 1.5.2. Technology & Business

### Different Types Of Technology Used By Business

There are a variety of different types of technologies that a business can make use of.

- ❑ **E-commerce**- this simply means shopping online, this is another method of selling as well as having a physical shop. The online business will also be able to take orders 24/7 compared to a shop.
- ❑ **Social Media** – Businesses can use social media to interact with their customers as well as promote new products.
- ❑ **Digital Communication** – This can be in the form of text, emails, video communication. These methods will be used to communicate with the customers.
- ❑ **Payment Systems** – These are needed to take payments, this can be for credit and debit cards as well as for paying employees wages. Services such as PayPal would also be used to pay for goods online



## 1.5 Understanding External Influences On Business

### How Technology Influence Business Activity

Technology can influence sales in a business in numerous ways:

- ❑ **Sales**- the use of technology (e-commerce) can influence sales as customers who want to shop from home can do via a website. They wont need to get to the shop during opening hours as the website operates 24/7.



- ❑ **Costs** – Using ecommerce means that most people can start a business easily. The start up costs are reduced as you wont have to pay for a physical building. You can also use a service like PayPal to take your payments



- ❑ **Marketing Mix**- Technology influences the marketing mix as companies can now have online campaigns which have a wider reach (audience) and this allows customers to interact with them online. This could be through a social media platform like Facebook.

## 1.5.3. Legislation & Business

### The Purpose Of Legislation

On the whole goods and services which are sold should be:

- ❑ **As Described**- The goods which have been provided must match up to any descriptions that have been given.
- ❑ **Fit For Purpose**- goods should be fit for the purpose they have been purchased for.
- ❑ **Satisfactory Quality**- Goods should be of a satisfactory quality and not be damaged or faulty in any way.

### Principles of consumer law

If a customer has purchase a product (new or second hand) and something has gone wrong with it they could be entitled to a **refund**, their **money back** or a **repair**.

### Consumers have rights if an item is:

- ❑ Broken/Damaged (Not of satisfactory quality)
- ❑ Unusable (not fit for purpose)
- ❑ Not as described

### Consumers do not have rights if an item is:

- ❑ Damaged from wear or misuse/accident
- ❑ A fault was known when the product was bought
- ❑ They have changed their mind



## Principles Of Employment Law: Recruitment

When recruiting new members of staff businesses will usually advertise a job vacancy. Then an interview and selection process will take place.

The Equality Act 2010 ensures that there is no discrimination with regards to age, gender, race etc.

## Principles Of Employment Law: Pay

Workers within a business must be paid at least the minimum wage. This will change every year. The current rates for 2018 are:

Year	25 and over	21 to 24	18 to 20	Under 18	Apprentice
April 2018	£7.83	£7.38	£5.90	£4.20	£3.70

The national living wage is higher than minimum wage, this is given to workers that are aged over 25. As of April 2018 it is £7.83 per hour.

## Principles Of Employment Law: Health & Safety

All workers have a right to work in a safe environment. Employers are responsible for ensuring that the work environments are safe for the employees.



## 1.5 Understanding External Influences On Business

### The Impact Of Legislation On Businesses

Legislation can impact on a business in numerous ways, this can include:

- ❑ **Cost** - a small business will have to meet all of the laws set out. This can include staff training e.g. for health and safety. They also may have to invest in new equipment to meet new safety requirements. This means higher costs for a business, which can impact on the profits.
- ❑ **Consequences** – Failure to follow these laws can result in heavy fines, imprisonment and even a disqualification

### 1.5.4. The Economy & Business

#### Changing Levels Of Consumer Income

As consumer incomes rise, they choose to buy better products – **Luxuries**



As consumer incomes fall, they will need to buy cheaper products – **Inferior Products**



## Consumer Income

Consumer incomes can affect the demand for products and services. If income is lower consumers may travel via a bus, however if their income is higher they may travel via a car.

## Unemployment

When unemployment is rising it means that more people do not have a job. This means:

- ❑ People have less income to spend
- ❑ Disposable income is lower (this is money that is left over after all bills are paid)
- ❑ Lower income can mean less or no luxuries
- ❑ The unemployment rate is the % of the working population that is out of work

## Consequences Of Unemployment On Business

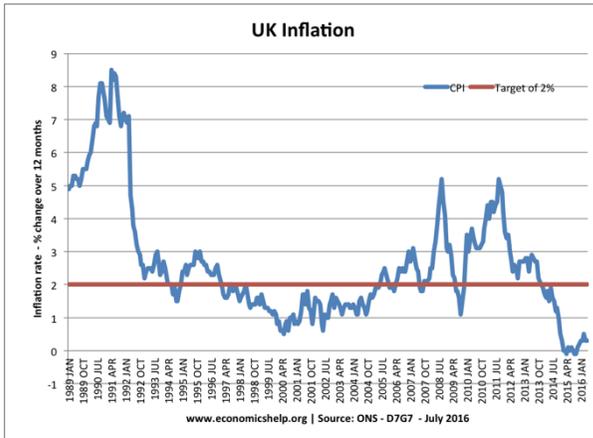


## Inflation

Inflation is a general rise in the prices of goods and services. It is usually measured every 12 months to see the rise in prices. The target for inflation is 2%.

### Impact Of Inflation Rates

- If inflation rate goes up customers will feel poorer as the price of goods has increased above what they are used to paying.
- If a consumers wage increase is larger than the inflation % then they will have more disposable income to spend
- If a consumers wage increase is lower than the inflation rate then they will not have more disposable income as the costs of goods is higher than their wage increase.



## 1.5 Understanding External Influences On Business

### Interest Rates

Interest rates are the cost of borrowing money. If customers can borrow money they can afford more luxuries for example cars, clothes, holidays etc.

If the costs of borrowing increases (interest rate goes up) customers tend to save instead of spend their money .



Interest rates are set by the bank of England, interest rates will affect the following types of loans:

- Mortgage Rates
- Loans
- Overdrafts
- Credit Cards

Businesses may be affected as they may have to borrow money.

- If interest rates **rise** then the cost of borrowing will rise and this will mean that the cost of supplies for a business may increase 
- A **fall** in interest rates means that the cost of servicing debt falls which may lead to an increase in profits (costs less to borrow so less to pay back) 

### Government Taxation

#### Corporation Tax

The government has a range of taxes which a business must pay.

Corporation tax means that 20% of profits must be paid by **all UK limited companies**. This has a major impact on the business profits.

#### VAT (Value Added Tax)

If a business earns **over £83,000** a year they must register for VAT. This means that they must **charge VAT (20%)** on their goods and services and then pay this to the government.

### Exchange Rates

The exchange rate is the price of one currency in exchange for another.

For example you can get \$1.38 for every £1 you have.

#### Effect of exchange Rates

##### Strong Pound

- Imports are cheaper as you get more of the foreign currency per pound
- Exports are more expensive as the countries will need to pay more in order to make up the money in £s for a product made in the UK

##### Weak Pound

- Imports are more expensive as you get less of the foreign currency per pound
- Exports are cheaper as foreign currency is worth more than the pound

### 1.5.5 External Influences

#### Responses By The Business To Changes In: **Technology**

Business needs to adapt the way it works to changes in technology. Examples being e-commerce. A new way of shopping online and through multiple devices e.g. phones and tablets



Email and social media have a platform for communication which is faster that can be utilised by a business making sharing information easy. They can also provide another level of customer service to interact with customers. Customers however can post negative comments about a business which can damage their reputation.



Technology also allows for communication in different countries e.g. through video conferencing. This reduces the carbon footprint of a company as they don't need to travel to a destination. This will help improve a company's reputation as they will appear to be "greener".



### 1.5 Understanding External Influences On Business

#### Responses By The Business To Changes In:

##### **Legislation**

Businesses will need to ensure that they are following and keeping up to date with any new laws that are being put into play.

If they are not following these they could be at risk of fines, imprisonment and a poor reputation amongst consumers.

Some new laws businesses may have had to adapt to include:

- Changes in consumer law** – 2015 introduced a law stating that if you receive a faulty good you are entitled to a repair or full refund within 30 days
- Employment Law**- businesses need to make sure they are paying the correct wage to their staff. Minimum wage must be met
- Tax Law**- You must pay all the taxes as a business and if you earn over £83,000 you must be VAT registered.
- Health and Safety**- Laws must be followed in order to keep your workers safe
- Pensions** – as of 2008 businesses must have a pension scheme for their workers and pay into it.



#### Responses By The Business To Changes In: **Economic Climate**

The economy is outside of the control of the business. The business can only respond to the changes in the economy.. Factors include:

##### **High Unemployment Rate**

1. More applicants for a vacancy
2. Lower wages as unemployed will work for less
3. Less demand for luxury goods
4. More demand for inferior goods
5. High training costs to increase workers skills

*If unemployment is low then opposite happens*

##### **Interest rates**

1. If **interest rates are low** the cost of **borrowing is cheaper** and people will spend more
2. If **interest rates are high** the cost of **borrowing is higher** and people tend to save their money

##### **Exchange Rates**

1. This is important for businesses that import and export products
2. If the pound get stronger the exports are expensive but imports are cheaper
3. If the pound is becoming worth less (weaker) then exports are cheaper but imports are more expensive

## Revision Questions

*These questions are based around the previous slides. Test your knowledge to see if you can answer them!*

1. What is a stakeholder? [1]
2. What is an internal stakeholder?[1]
3. What is an external stakeholder [1]
4. Give an example of an internal stakeholder[1]
5. Give an example of an external stakeholder [1]
6. Give 4 examples of stakeholders to a supermarket [4]
7. Explain how the following stakeholders can have an affect on the business [4]
  - Employees
  - Suppliers
  - Government
  - Pressure groups
8. How can technology affect a business? Give examples of the following: [4]
  - E-commerce
  - Social Media
  - Digital Communication
  - Payment Systems
9. How can technology have an affect on the following factors of a business:
  - Sales
  - Marketing mix
  - Costs
10. When selling goods what 3 factors does legislation say [3]
11. What does consumer law cover customers for? And what does it not cover customers against [6]

## 1.5 Understanding External Influences On Business

12. What impact can legislation have on a business? [4]
13. How does the unemployment rate affect a business?[4]
14. What is inflation? How does it affect consumer spending? [4]
15. How can interest rates affect a business [4]
16. What are some of the taxes a business must pay [2]
17. When recruiting new employees a business must ensure which 3 of the following?[3]
  - The workplace is a safe environment
  - All workers must be paid the same
  - The workers are paid at least minimum wage
  - There is no discrimination in the recruitment process
  - The workers must all work the same amount of hours
18. Explain the impact of exchange rates on imports and exports for a business [4]
19. Explain how a business must react to changes in the following[8]
  - Technology
  - Economic Climate
  - Legislation
20. A business must charge VAT when the following is true[1]
  - The business makes more than £93,000
  - The business makes more than £85,000
  - The business is a partnership
  - The business has more than one location



## Tips

For an essay style question use the following tips to ensure that you are maximizing your marks:

- Read through the question underlining any key points
- For these types of questions an extended answer is expected.
- Discuss both the advantages and disadvantages of the given context
- When discussing a point ensure that you contextualise your answer. This means give examples which relate to the scenario
- Remember to give a well reasoned conclusion

21. Brandon is conducting research on behalf of a business that buys and sells dairy products. He has been asked to look into the possible conflicts which can occur between the stakeholders of the business.

Using your knowledge of stakeholders evaluate the possible conflicts which can occur between stakeholders [12]



### 2.1.1. Business Growth

#### Methods Of Business Growth And Their Impact

The 2 types of growth are **organic** and **inorganic**

#### Organic Growth

- This means that the business has grown from within
- The growth did not depend on a merger/takeover with another business

#### How does Organic Growth Occur?

- Developing new products, this is called **new product development**
- New products brought to market (**innovations**)
- A business can put investment into R&D which is **research and development**
- A business can grow by entering new markets e.g.:
  - Expanding overseas
  - Changing the marketing mix
  - Taking advantage of new technology

#### Advantages of Organic Growth

- Business can keep their company culture
- Higher production lets the business benefit from economies of scale and lower average costs
- More market share, the business can start setting prices for the industry as they have more influence

#### Disadvantages of Organic Growth

- Very high risk strategy, opening lots of stores or taking on new staff is very risky
- Long period between investment and return on investment
- Growth may be limited and is dependent on reliability of sales forecasts

## 2.1 Growing the business

### Inorganic Growth

- A business may want to grow quickly and this can be achieved by:
  - Mergers** – Two businesses merge together to become one
  - Takeovers** – One business takes over another business buying **more than 50%** of the shares. This can be considered a hostile take over is shareholders disagree

#### Advantages of Inorganic growth

- Economies of scale.** Better deals because of increased order size, bulk-buying discounts etc
- Increased revenue and market share** as you are combining 2 companies together
- Buying technology** due to increased available funds
- International Expansion.** Buying a business in another country helps with culture issues, laws etc.

#### Disadvantages of Inorganic Growth

- Clash of cultures.** Businesses have a slightly different culture and they may not work well together
- Possible **communication problems** as the business gets bigger, or if there are now too many employees
- Unreliable merger partners.** A good merger will depend on trust between the businesses
- Diseconomies of scale.** As a business gets larger costs will go up with problems of motivation, communication and co-ordination
- A lot of mergers fail (approx. 70%)

### Types of business ownership for growing businesses

As a business grows they may decide to sell shares on the stock market. This means the gain PLC status (Public Limited Company).

#### Characteristics of a PLC

- Shares bought and sold on the **Stock Exchanges**
- Shares are open for **anyone to buy**
- Most shares in a plc are owned by organisations rather than individuals
- The business can **expand** at any time by **selling more shares** to raise finance
- Limited liability** which means the business has its own legal status, so the owners cannot be sued

#### Advantages of PLC

- Limited Liability- only lose your investment
- Easy to raise capital – issue more shares
- Banks more willing to lend money to a large well-established company – less risk
- Easier to grow and expand

#### Disadvantages of PLC

- Expensive
  - a lot administrative work (paper work)
  - Raise at least £50,000
- Issue more information about itself – expensive to produce
- Has to prepare Annual Accounts – printed and sent to all shareholders
- Also make them available for general public and competitors to see, so they will know what your plans are for the business

## Sources of Finance

**Internal:** this means the business finds the money that it needs itself, for example through selling an asset or through using the profits that it has.

- Retained profit is reused to reinvest in the business
- A start up business will not have any retained profit as it will not have made any to retain
- No interest to pay using this method
- Main disadvantage is that once you have used it up it is gone until you make more profit
- Selling machinery could lead to slower production rates

**External:** this means that the business will need to borrow the money to expand somehow, this includes loans, shares and even floating shares on the stock market

### Loans

- Money is available almost instantly this way
- A loan will have to be paid back with interest

### Share Capital (Ltd)

- Selling shares means that you have to share even more of your profits
- However there is no interest to pay so it can be cheaper than a loan

### Floating on the Stock Market (PLC)

- A ltd business may decide it needs more money to expand and will become a public limited company
- This means it can “float” the shares on the stock market
- Shares in the business can now be sold to the general public, generating more capital to expand

## 2.1 Growing the business

### 2.1.2. Changes In Business Aims And Objectives

#### Why Aims & Objectives Change As Businesses Evolve:

##### Changes in Market Conditions:

Aims and objectives may change in line with market conditions. This could be because more businesses are entering a market or there could be external factors such as unemployment rising which affects the demand for products.

##### Changes in Technology

New production processes and products may be released into a market which would mean that the businesses need to adapt their current aims and objectives. For example new technology that could speed up the production process increasing output. Also new technology introduced to the market such as a dual camera on a phone. The businesses would need to respond to such changes.

##### Changes in Performance

A business may change depending on its performance from the previous year. E.g. a business that has performed well may want to grow and expand, however a business that did not perform so well may need to reduce their staff to keep their costs low.



### Changes in Legislation

New laws may affect the business aims and objectives. For example minimum wage rates in the UK may affect the way in which a business grows. This is because there is a set minimum for which a business needs to pay its employees.

### Changes Internally

A business may need to change due to internal reasons within the business. This could be due to a shift in the products being offered by a company, or if it is expanding.

### How business aims and objectives change as businesses evolve

Some businesses may focus on:

- Survival or growth** – Survival will apply to a new start up, and they may want to expand the following year
- Entering / Exiting markets**- Entering new markets which may be profitable, or exiting markets which aren't as profitable
- Expanding / Decreasing the workforce**- This could be to grow the business, or to reduce costs by employing less workers
- Increasing the product range**- To give the customers a wider range of choice, therefore meeting customer needs
- Decreasing the product range**- This will decrease the range and only sell more desirable products. Some products may not be selling well and may be discontinued by the business

### 2.1.3 Business and Globalisation

**Globalisation**- The process of a business operating on an international scale



#### Impact of Globalisation

- ❑ **Imports** (buying goods from abroad)
  - ❑ Competition From Overseas- which may sell similar products and already be established in another country.
  - ❑ Buying From Overseas- Companies can buy products from overseas which are already manufactured ready to sell
- ❑ **Exports (Selling to other countries)**
  - ❑ Selling To Overseas Markets- increasing revenue
- ❑ **Changing Business Locations**- A business may decide to move their entire business operations abroad. This is called **offshoring**
- ❑ **Multinationals** – This is a business which may decide to trade in more than one country

#### Barriers to International Trade

**Tariffs**- These are taxes placed on imports to increase their price and to decrease their demand.

Tariffs can be adjusted by governments to raise revenue (as they are a tax) and to limit imports

The tariff is used to persuade customers to buy UK produced products rather than one from abroad

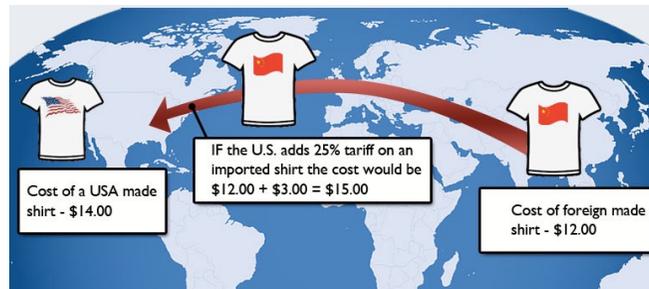
#### tariff

A tax or duty that a government charges on goods coming into or going out of the country

## 2.1 Growing the business

### Tariff Advantages / disadvantages

Advantages	Disadvantages
<ul style="list-style-type: none"><li>❑ UK produced goods do not pay tariffs so should be cheaper</li><li>❑ Tariffs allow UK goods to gain a price advantage</li><li>❑ Tariffs can protect a market from being taken over by international competitors</li><li>❑ Can raise revenue for governments to spend on the UK</li></ul>	<ul style="list-style-type: none"><li>❑ Some customers will pay the higher price for the imported goods</li><li>❑ Tariffs will increase the costs for all customers</li><li>❑ Other countries may impose tariffs on UK goods as we have imposed the tariff on them</li></ul>



### Trade Blocs

These are a group of countries that make a trade agreement not to place a tariff on imports.

An example of a Trade Bloc is the EU (European Union). The countries in the EU have no barriers to trade and no tariffs to pay when trading between countries in the EU.

### How businesses compete Internationally

**E-commerce** – A business can use the internet to buy and sell products online. For example a small business could use a website to trade worldwide. They may however need to translate their website into different languages to do so. Ecommerce reduces the need to set up an international shop as everything can be done via a website.

### Changing The Marketing Mix To Compete Internationally.

- ❑ **Product**: This may need adapting to suit local tastes, colours, the name may need to be changed
- ❑ **Place**: A business may need to find a reliable method of transporting their goods to international customers
- ❑ **Price**: Prices may have to be adjusted to take account of foreign wage rates e.g. penetration pricing
- ❑ **Promotion**: This will need to be the right promotion to encourage foreign customers to try the product e.g. multipack deals.

### 2.1.4 Ethics, Environment & Business

#### Ethics

- Ethics is the understanding of what is right and wrong. In a business this could be:
  - Paying workers a fair wage
  - Providing good working conditions
  - Not polluting
  - Not to exploit people
  - Not to harm the planet

#### How Ethical Considerations Influence Business Activity:

#### Trade offs

A trade off in business is compromising between two different items. Examples of trade offs in business are:

Option 1	Option 2	Why is this a trade off?
Shareholders want to maximise profits	Business owners may want to run a business ethically	Trading ethically could be expensive and affect profits
Shareholders want to produce more products to sell more / make more profits	Pressure groups wants businesses to stop polluting the environment	Businesses who produce more would cause more pollution. This could cause pressure groups to protest

## 2.1 Growing the business

### Pressure Groups

A pressure group is an organisation that try to influence businesses to conduct their business in a certain way. This could be not to harm the environment and also to treat workers fairly.

Pressure groups will do the following to try and inform consumers about a businesses activity:

- Write to newspapers
- Write letters to MPs
- Organise protests and marches
- Run campaigns against companies



Pressure groups can affect a business as they will influence customers buying habits by alerting them to ethical issues with the business.

e.g. if a business is underpaying workers a pressure group could sent out media as well as protest about this to bring the issue to the consumers attention.

#### Impact of pressure groups

1. Pressure group starts a campaign against a business
2. Consumers see this campaign and do not agree with a companies ethics
3. Revenue, sales and profits falls for the business
4. The business changes it way it operates to be more ethical

### Potential Impact Of Pressure Group Activity On The Marketing Mix

#### Product

Pressure groups may want to bring awareness to some products. They may want to change the product or the way its made.

An example being John West Tuna was discovered to be using harmful fishing methods. Pressure groups brought this to the attention of the supermarkets. Sainsbury's then stopped selling the product until the business changed their ways. This will have had a significant impact on the sales of John West during that time.

#### Promotion

Some of the pressure groups often attempt to damage a brand reputation with bad publicity. The aim of this is to pressure the business into making changes.

One example was that some chocolate companies had been using palm oil in their products. In order to get palm oil animals habitats were being destroyed. Pressure groups alerted the public to this which led to a decrease in sales for the companies until they stopped using palm oil in their products.



## Revision Questions

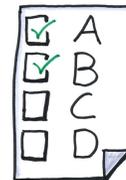
*These questions are based around the previous slides. Test your knowledge to see if you can answer them!*

1. What is organic growth? [1]
2. What are some of the ways organic growth can occur? [2]
3. What are some of the advantages of organic growth? [3]
4. What are some of the disadvantages of organic growth? [3]
5. What is inorganic growth? [1]
6. What are some of the ways inorganic growth can occur? [2]
7. What are some of the advantages of inorganic growth? [3]
8. What are some of the disadvantages of inorganic growth? [3]
9. What is the difference between a merger and a takeover? [2]
10. What are the advantages and disadvantages of a PLC? [8]
11. What is an internal source of finance? Give examples [3]
12. What is an external source of finance? Give examples [3]
13. Why might a businesses aims and objectives change? [5]
14. What is globalisation? [1]
15. What are the impacts of globalisation on imports and exports? [4]
16. What is a tariff? How is this a barrier to international trade? [5]
17. What are the advantages and disadvantages of a tariff? [5]



## 2.1 Growing the business

18. What is a Trade Bloc? [2]
19. State one method in which a business can compete internationally [1]
20. How might a business change the marketing mix to compete internationally
  - Product [1]
  - Price [1]
  - Promotion [1]
  - Place [1]
21. What are some ways in which a business can operate ethically? [5]
22. What is a trade off in a business? Give examples [4]
23. What is a pressure group? [2]
24. How can a pressure group impact on business activity? [4]
25. Which of the following is an example of a Trade Bloc? [1]
  - United Kingdom (UK)
  - European Union (EU)
  - North America (NA)
26. Which two of the following are ways in which a business can operate ethically [2]
  - Paying workers fairly
  - Exploiting workers to increase profits
  - Causing minimal pollution
  - Providing poor working conditions



## Tips

For an essay style question use the following tips to ensure that you are maximizing your marks:

- Read through the question underlining any key points
- For these types of questions an extended answer is expected.
- Discuss both the advantages and disadvantages of the given context
- When discussing a point ensure that you contextualise your answer. This means give examples which relate to the scenario

Businesses can grow both organically and inorganically. Evaluate how both of these types of growth can affect a business in its expansion. [12]



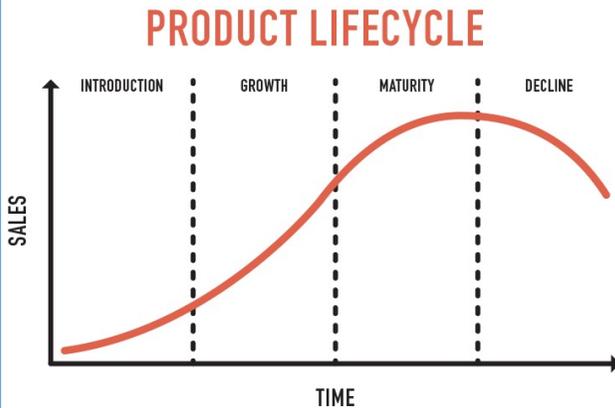
## 2.2.1 Product

### The Design Mix

When designing a product we can use the design mix. These are three questions which identify the purpose of a product. They are:

- ❑ **Function**- what does the product do or solve?
- ❑ **Aesthetics/Design**- How does the product look/feel (aesthetics).
- ❑ **Cost**- can the product be made at a cost effective price? What are the margins of profit? Can you make the product at a lower cost than competitors?

### Product Life Cycle



#### Introduction

During this phase of the product life cycle sales will be low as customers are not yet aware of the product. Also the costs of research and marketing may affect profits.

## 2.2 Making Marketing Decisions

### Growth

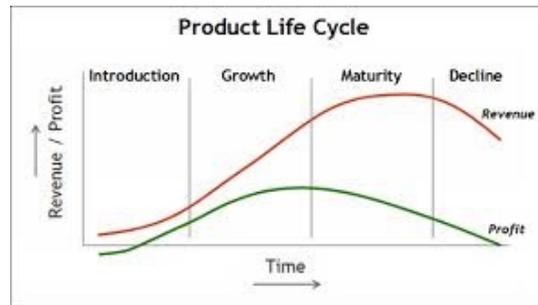
During the growth period customers are becoming more and more aware of your product and there is a high demand for it. Sales will be growing rapidly and so will profits.



### Maturity

In the maturity phase products are now competing against their competitors as they will have a similar product in the market.

Sales may still be high but profits will start to fall as demand falls.



### Decline

During the decline phase there may be a limited production of a product. Sales and profits will have fallen by this stage and the product may have been discontinued.



### Extending The Product Life Cycle

To extend the product lifecycle the business can do the following:

- ❑ **Adapt the product**- updating a product to keep up with current trends. E.g. updated models of a car every 5 years
- ❑ **Promotions** – Repackaging, Discounting the product, Rebranding a product, Adding more features. Or even promotion overseas for new markets.

### The Importance To A Business Of Differentiating A Product/Service

Differentiation is making products/services different from your competition. This can be done by:

1. **Branding**- Customers buy brands they like
2. **USP**- What is unique about your product that makes it different to the competition?
3. **Location**- is your product located in the best position e.g. a busy high street?
4. **Design**- is the design and packaging made to catch the customers eye? Is it designed to be more ergonomic?
5. **Customer Service**- do you provide customers with an after sales service?
6. **Quality**- is your product of a high quality?
7. **Product mix**- Is there a wide range of products on offer from your business?



## 2.2 Making Marketing Decisions

### 2.2.2 Price

#### Pricing Strategies

There are various strategies a business can use when selling their product/service they include:

#### Skimming Pricing

- ❑ Product is initially priced high as it is seen as a desirable
- ❑ The price will then be lowered over time, there for the price is skimmed
- ❑ Examples: mobile phones & game consoles

#### Penetration Pricing

- ❑ This involves setting a low price initially to encourage purchases
- ❑ When the product gains market share the price is then increased
- ❑ Examples: Broadband providers

#### Cost Plus Pricing

- ❑ This involves working out the total cost to make a product and then adding a profit on top
- ❑ You can add a fixed value to the costs e.g. £3 or a percentage e.g. 10%
- ❑ Examples of this pricing include restaurants

#### Competitor Pricing

- ❑ Pricing similar to your competition
- ❑ This means customers will judge on the quality and other factors
- ❑ Examples include: Food and Drink in supermarkets

#### Promotion Pricing

- ❑ Products are being offered at a cheaper price for a limited time to encourage sales.
- ❑ Examples: buy one get one free



#### Influences on Pricing Strategies

##### Technology

- ❑ Advancements in technology means the production process can be more efficient increasing profit margins
- ❑ This means products can be produced in less time
- ❑ If the production costs are lower this can be passed on to the consumers



##### Competition

- ❑ If a business is operating in a competitive environment this can influence the price of a product
- ❑ Examples being the price of petrol

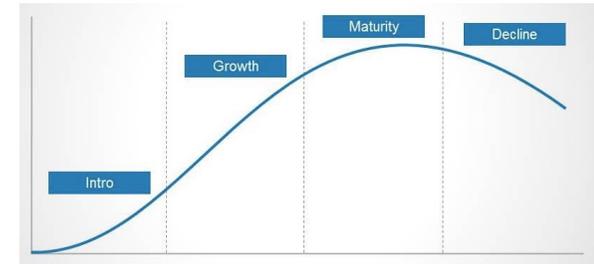


##### Market Segments

- ❑ In markets which have a wide range of similar products (**mass market**) pricing will be low to encourage sales
- ❑ In **niche markets** where products are unique and there is minimal choice, prices will be higher (premium price)

#### Product Lifecycle

During the product lifecycle a product will experience various pricing strategies.



- ❑ **Introduction**- During this stage the product will be launched possibly at a lower price to gain sales
- ❑ **Growth** – During the growth stage a business may offer a smaller discount on the product to encourage sales
- ❑ **Maturity**- During this stage the product will be priced high to take advantage of maximum profits
- ❑ **Decline** - During the decline phase of the product lifecycle the product will be heavily discounted to gain sales. Eventually the product will be discontinued and the low pricing strategy encourages the sale of the limited stock of the product.

### 2.2.3 Promotion

#### Appropriate promotion strategies for different market segments

#### Advertisements

A business will use advertisements in order to:

- Raise awareness of a brand
- Promote the brand
- Encourage customers to switch

A business can advertise via:

- Websites**- a cheap form of advertising which can be seen 24/7 and by a worldwide audience
- Printed** – National/local newspapers can be used to promote a business. A more local business would advertise in a local paper. Other forms of printing include magazines which can be specialised e.g. Autotrader.
- Television** – TV can be expensive but expose a brand to a large audience. There are specialist channels that can be used to target specific markets e.g. kids TV such as nickelodeon
- Radio** – Radio is a relatively cheaper form of advertising and can be used for local businesses on local stations.

#### Advertising to niche and mass markets

Niche	Mass
Local Radio	National Radio
Local newspaper	National newspaper
Flyers	Television
Social Media	

## 2.2 Making Marketing Decisions

### Sponsorship

When a business sponsors another event they are associating themselves with the event. Sponsorships can be seen by a large audience e.g. if they are on a premier league football kit.

Local businesses can also sponsor smaller events in the local area to raise awareness.



### Product Trails

Product trails can be used in order to let the customers get a hands on experience with your product. They can examine, use and test the product and then feedback to the company.

The trails can be used to test a product in a wider market to see if there is a demand for the product and also to see if their market research about the product was correct.

### Special Offers

Offers can be used to encourage consumers to purchase goods such as:

- Buy One Get One Free
- Discounted goods
- Gifts
- Competitions



### Branding

Brands distinguish one supplier from another, consumers will be brand loyal. This can be used to promote products

### Use of Technology in Promotion

#### Target Advertising

If a user is searching for a new car on the internet, they may see adverts appear for cars on other websites. This is called target advertising.



#### Viral Marketing

Viral is where an advert becomes so successful that consumers will pass it on to each other so it is seen by a large audience.

Social media can be used for viral marketing as consumers can share and post about a viral campaign. It can be used to communicate, build trust, and interact with customers.

Social media is cost effective and can provide a new platform for businesses to increase engagement and to inform customers of new products.

#### Viral Advertising Via E-newsletters

This is where a business sends an e-newsletter (via email). The customer would then send it to their friends, this makes the newsletter go viral. The business would ask their customers to share the newsletter.

## 2.2.4 Place

### Methods of Distribution

#### Retailers

This is a business that sells goods from a physical shop. Also known as a bricks and mortar shop.

- The retailer will sell goods directly to a consumer. The owner of the shop may have bought goods from a wholesaler to sell on to the customers
- The retailer will make a mark-up on the price of the goods that they sell. This means that they will sell the product for more than what they paid for it.
- This is one of the main ways in which the retailer will make a profit in their business
- Retailers may also have to pay rent for their shop as it is unlikely that they will own the premises that they are operating from.
- Examples of a retailer include high street shops, newsagents and many more.
- Larger retailers can be part of a corporation that sell in other countries
- Independent retailers are not part of a chain like Tesco. They tend to sell niche products and so charge a higher price.



## 2.2 Making Marketing Decisions

### Advantages and Disadvantages of Retailers

There are several advantages and disadvantages of being a retailer some of which include:

Advantages	Disadvantages
Shopping can be an experience for the consumer	Limited opening hours for a shop
Try before you buy a product	Queues can occur in a shop making customers wait for their goods
Customers can have the product as soon as they have bought it	Can be higher prices than an etailer
Retailers can let the customers see, feel and test a product	Some customers may find it embarrassing to buy certain products
Face to face communication lets the retailer read a consumers body language	

### Etailer

This is a business which sells goods online via the internet. These are websites such as Amazon.



Some etailers can also have a physical shop and an online shop, this is known as "clicks and mortar". Some examples being Currys, Argos, Tesco to name a few.

Advantages	Disadvantages
Low start up costs	Harder to establish trust with consumers
Can sell a larger range than a shop	Website setup can be expensive
Can sell products for less as you are not paying rent for premises of staffing costs	Security and fraud online can be an issue.
Access to a global marketplace	Distribution can damage a reputation e.g. if a delivery is late
Lower fixed costs	
Potential to grow rapidly	

## 2.2.5. Using the marketing mix to make business decisions

How each element of the marketing mix can influence other elements

Price		
<b>Product</b> Some products may be high in demand, this means that a higher price can be charged to the consumer for these goods and services. An example would be the latest smartphones	<b>Place</b> Transport costs can be high due to petrol prices, this means a higher price for goods will be charged.	<b>Promotion</b> Some brands promote their products heavily, this means that a higher price can be charged for their goods e.g. Nike



## 2.2 Making Marketing Decisions

Product		
<b>Price</b> If customers want a lower price the product may have to be made from lower quality materials	<b>Place</b> Technology is influencing customers to shop online.	<b>Promotion</b> Digital promotion methods need to be used for products online e.g. Groupon



Place		
<b>Price</b> The price of a product may dictate where a product is sold. E.g. a high end watch would be sold in a high end jewelers	<b>Product</b> The type of product will influence place e.g. a customer may want to test a car first so it would be harder to sell online than in a shop	<b>Promotion</b> With a larger advertising campaign more businesses will want to sell products

Promotion		
<b>Price</b> Promotion can help similar priced products to gain market share	<b>Place</b> Some shops specialise in providing discounted products so they may expect prices to include a range of sales /promotions	<b>Product</b> Older products may require promotions to boost sales

### Using The Marketing Mix To Build Competitive Advantage

All business owners must use the marketing mix effectively so that they are meeting the customers needs. If the business owner gets the mix right they will gain a competitive advantage.

### How An Integrated Marketing Mix Can Influence Competitive Advantage

By having both an online shop and physical outlet you can maximise your presence in the market. If you make the right decisions then this will allow you to make significant gains in the market share.

The main reasons for this are that you are providing an outlet as well as a online website for customers to buy goods. By doing so you are reaching a global marketplace whilst remaining a local business.

## Revision Questions

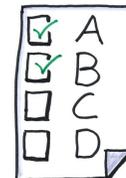
These questions are based around the previous slides. Test your knowledge to see if you can answer them!

1. What are the 3 aspects of the design mix that should be considered when producing a product? [3]
2. Explain what happens during the following phases of the product lifecycle [4]
  1. Introduction
  2. Growth
  3. Maturity
  4. Decline
3. What are some ways in which you can extend the product lifecycle? [3]
4. Explain the different ways in which a business could differentiate their product [6]
5. State what is meant by the following pricing strategies [5]:
  1. Skimming Pricing
  2. Penetration Pricing
  3. Cost Plus Pricing
  4. Competitor Pricing
  5. Promotion Pricing
6. How can the following influence a pricing strategy of a business:
  1. Technology
  2. Competition
  3. Market Segment
  4. Product Lifecycle
7. State 4 ways a business can advertise [4]
8. Explain the difference between sponsorship and product trails [4]
9. What are some ways in which technology can be used to promote a product [4]



## 2.2 Making Marketing Decisions

10. What is a retailer? [1]
11. State the advantages & disadvantages of a retailer [6]
12. What is an etailer? [1]
13. State the advantages & disadvantages of a etailer [6]
14. How can **price** influence the other elements of the marketing mix? [4]
15. How can the **product** influence the other elements of the marketing mix? [4]
16. How can **promotion** influence the other elements of the marketing mix? [4]
17. How can the **place** influence the other elements of the marketing mix? [4]
18. How can using the marketing mix gain a business a competitive advantage [3]
19. What is an integrated market? [2]
20. How can having an integrated marketing mix benefit a business? [3]
21. Which one of the following is a form of marketing [1]
  - Viral Advertisements
  - Online presence
  - Promotional Vouchers
  - Gift Cards
22. Which of the following is a characteristic of a Etailer [1]
  - Operate one the high street
  - Operate online
  - Used to advertise products
  - Owned by the government



## Tips

For an essay style question use the following tips to ensure that you are maximizing your marks:

- Read through the question underlining any key points
- For these types of questions an extended answer is expected.
- Discuss both the advantages and disadvantages of the given context
- When discussing a point ensure that you contextualise your answer. This means give examples which relate to the scenario

Tip Top Trampolines are a business that specialises in providing trampolines to schools and gymnasiums in their local area.

They are currently trying to decide whether they should set up an online website and sell their products online. They feel this way as their sales are forecasted to be lower than the previous year.

Evaluate this business decision [12]



### 2.3.1 Business Operations

#### The Purpose of Business Operations

- ❑ **To Produce Goods-** Some businesses produce goods, they will take raw materials and produce goods. By taking raw materials and producing goods they are adding value.
- ❑ **To Provide Services** – Some businesses may provide services to customers. Services are intangible items that can not be touched.

#### Production Process

##### Job Production

Job production is where a single product is made at a time. These types of products would be made for a specific client with specific needs. The products made are of a high quality and therefore a high price can be charged. The process may be slow and labour intensive

Advantages	Disadvantages
Bespoke, unique products for clients	Employing skilled labour is a large expense
High prices can be charged	Wide range of tools required
Motivated workers who like to see one item made from start to finish	
Motivated workers, work harder, more productive and low rate of absenteeism	

## 2.3 Making Operational Decisions

### Batch Production

Batch production is where a small quantity of identical products are made. This is used where a business wants to make more than one item at a time. An example would be bread

Batch production can be switched over and a new product can be made e.g. muffins

Advantages	Disadvantages
Production can be changed to meet customer needs / demand	Less motivated workers as work can be repetitive
More machinery can be used as less labour is involved than job production	The production process stops while the machines are changed to make the next product
Employees can specialise in certain areas which makes the process more effective	If one batch overruns then all batches are held up causing a decrease in productivity



### Flow Production

Flow production uses production lines with continuous movements of items through the process.

Mass produced items are made this way like soft drinks. A lot of capital is required to set up this process as you require a lot of machinery.

Products can be made 24/7 and high quantities can be made each day.

Advantages	Disadvantages
Large quantities made, businesses can buy bulk materials and save money (economies of scale)	High set up costs (machinery & factory)
Automated processes by computers can result in high quality in shorter time scales	Low motivation of staff due to repetitive tasks
As production is continuous, raw materials do not need to be stored. So a business can use a just in time (JIT) system	Breakdown of machinery can lead to a loss of production which can be very costly
	Can be harder to change production to produce a new product. Normally set up to produce one item e.g. canned food

## 2.3 Making Operational Decisions

### Impact of Different Types of Production

keeping productivity up and costs down and allow for competitive prices

#### Job Production

This is the the best production to choose when only one product needs to be produced at a time. E.g. building a ship

#### Batch Production

This is the correct production process to choose when a group of products need to be created e.g. a batch of chocolate muffins

#### Flow Production

This is best for producing large quantities of a product e.g. chocolate bars

### Impact of Technology on Production

- ❑ **Lower costs**- Initial cost of buying machinery will be expensive. However the business will reduce wastage and see an improvement in quality of the products. Machinery also does not need to be paid so the savings will build up
- ❑ **Improvement in Quality** – No human error can occur and computers can now be used to aid designs of new products
- ❑ **Improvement in Productivity**- Robots can work 24/7, require no breaks and will have a higher productivity per hour
- ❑ **Improvement in Flexibility**- Machinery can produce a wide range of products if programmed right saving time skilling up the workers

### 2.3.2 Working With Suppliers

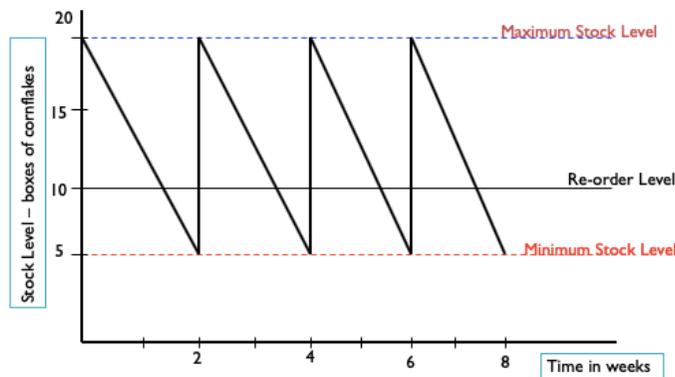
**Stock** – this can be raw materials, a work in progress or finished goods

#### Managing Stock – Bar Gate Diagrams

##### Note

*For the exam you will not be expected to draw a bar gate diagram. You will only be expected to be able to read and analyse them*

Bar gate diagrams are used to make sure a business does not run out of stock.



Above is an example of a bar gate graph. It shows the maximum stock (most you can store) & minimum (least you should store). It also shows the reorder level, this is the point at which stock should be reordered

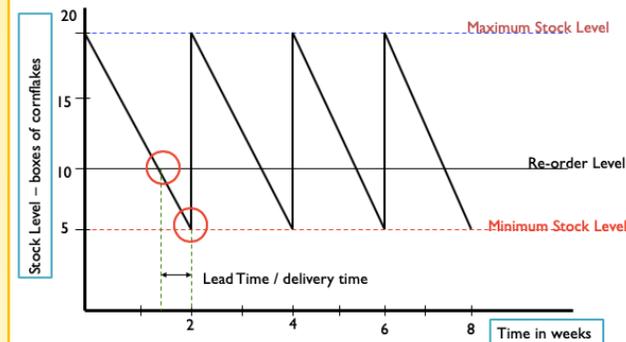
### Buffer Stock

Buffer stock is the lowest amount of stock you should store. In this case the buffer stock is 5. The buffer stock is the minimum to keep you going so you do not run out of stock

### Reorder Level

This is the point at which a business should reorder their stock. This will ensure that they never run out of a product. In this case the reorder level is 10. At this point it will leave enough time for a delivery of new stock to arrive.

### Delivery Time



The time difference between the reorder level and minimum stock level indicates the deliver time for new stock. In this case it is 0.5 weeks



## 2.3 Making Operational Decisions

### Managing Stock: Just In Case

Just in case means that a business would stock products just in case they need them.

### Managing Stock- Just in Time (JIT)

Just in time means that the business does not keep stocks within its shop/ warehouses.

Instead they would receive their goods on the day that they need them. An example would be a mechanic, they order the parts they need to fix a car on the day.

### JIT & Supplier Relationship

In order for JIT to work the business needs to have a very good relationship with their suppliers.

If they do not have a good relationship then this method will not work and there could be delivery and quality issues.

There are no buffer stocks to keep a business going using this method so if the delivery is not on time the product/service can not be delivered/produced.



### Advantages and Disadvantages of JIT

Advantages	Disadvantages
As parts are ordered as they are needed there is <b>no wastage</b>	The business won't be able to meet unpredicted increases in demand
Parts are not warehoused which is a massive <b>cost saving</b> in terms of premises and staff	The business won't be able to quickly replace damaged parts
Stock is less likely to go out of date	If the delivery does not turn up in time this can stop the whole production line, which is costly
The business will improve their cash flow, as their money is not tied up in stock	



### The Role Of Procurement

Procurement is the process by which businesses buy raw materials, products, services, and other resources from a supplier to produce their own products and services

Sometimes a business can set up a procurement agreement with a supplier.

The role of procurement needs to ensure the following from the suppliers:

- Quality** – The business wants to make sure the suppliers are providing the best quality products
- Delivery** – The JIT method requires deliveries to be on time because without this the production can stop
- Availability** – If the business has an agreement with a supplier they need to make sure that the stock is available. If it is not available their production could stop and customers end up shopping elsewhere
- Cost**- Once a supply deal has been made the two sides would agree on pricing for materials etc. There would be initial costs to set up administration and design of any new software to process orders.
- Trust** – this can be built through reliable deliveries and high quality products/services.



### 2.3.3 Managing Quality

**Quality** can be described as how well a product is made. It also a state of being free from defects and deficiencies

#### The Production Of Goods And The Provision Of Services

#### Quality Control

Quality control inspectors check that standards have been met at the end of the production process.

They ensure that the quality standards are consistent and customers do not receive a sub-standard product.

By doing this there could be a lot of waste if a fault has been identified.

Quality control is concerned with checking and reviewing work that has already been done For example, quality control includes:

- Inspection
- Testing
- Sampling

Quality control is mainly about "detecting" faulty output - rather than preventing it



## 2.3 Making Operational Decisions

### Quality Assurance

This is how a business can design the way a product is produced to minimise the chance of errors or a sub standard product.

It is a way of preventing mistakes and defects in manufactured products and avoiding problems when delivering products or services to customers

They focus on the design & development stages, if the production is controlled the quality will be "built in" to the product. If you have a reliable production process there is less need to check outputs (quality control)

Quality assurance will build quality into each stage of production. Rather than just checking a product at the end.



All workers are responsible for meeting quality standards, and this can be more time consuming for a business. Each work may have different standards to meet and this can cause consistency issues.

### Controlling Costs to Gain a Competitive Advantage

If goods are faulty then this can be costly to a business as resources are wasted.

Controlling the quality of your products means there will be less wasted resources and materials.

By having less waste the cost of production is therefore lowered

If a businesses costs are lowered they can charge a lower price or make a higher profit.

Businesses can use quality to build a competitive advantage by:

- Differentiating their products
- Meeting customer needs
- Building a strong brand
- Charging premium prices for their products



### 2.3.4 The Sales Process

When selling products to the end user there are several skills which are essential for providing customers with knowledge as well as a good quality service

- ❑ **Product Knowledge** – Understanding a products features allows the sales person to showcase the products benefits. Customers respond well to this and can be persuaded to make a purchase
- ❑ **Speed / Efficiency of Service** – Customers expect their orders to be correct and of a sufficient speed. For example if a customer was to purchase fast food they would expect a quicker service than in a restaurant
- ❑ **Customer Engagement** – This is the relation that the customer has with the business, it can be a reaction, response or an experiences of a customer with a brand. It can be done various types of mediums such as online or offline.
- ❑ **Responses to Feedback** – All feedback is important to businesses, as it helps them to improve their services and products. The way a business responds can be the difference between a success or a failure.

## 2.3 Making Operational Decisions

**Post Sales Service** – This is the service a customer receives after they have purchased a product. It can be the warranty, any repairs or maintenance they need to perform on their product

### Reasons For Customer Loss:

- ❑ Customers feel poorly treated by a business
- ❑ Failure to solve issues and problems in a timely manner
- ❑ Poor after sales services
- ❑ Uncompetitive prices
- ❑ Products not meeting customer expectations

### The Importance To Business Of Good Customer Service

A business needs to make sure they offer a high quality service.

- ❑ Unhappy customers have the ability to tell potential customers and persuade them not to buy from a certain brand
- ❑ Happy customers will come back and buy again from brands that offer a good service.



### Customer Service Methods

One customer service method which can be employed by a business is the LAST method.

- L**isten to the customers problem
- A**pologise for the inconvenience caused
- S**olve the issue
- T**hank them for the services

By using methods such as these businesses can provide a service which corrects any issues keeping the customer happy.

### Effects of Customer Service

Good Customer Service	Poor Customer Service
Brand name will be viewed positively	Brand name will be damaged
Increased loyalty from customers	Customer loyalty will fall
Increased sales	Lower sales
Customers will stick with your brand	Customers will switch brands
Increased market share	Lower market share
Increased revenue	Lower revenue

## Revision Questions

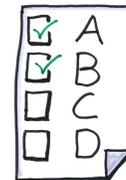
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2. What is meant by Job Production? [1]
3. What are the advantages and disadvantages of Job Production [6]
4. What is meant by Batch Production? [1]
5. What are the advantages and disadvantages of Batch Production [6]
6. What is meant by Flow Production? [1]
7. What are the advantages and disadvantages of Flow Production [6]
8. How can technology impact on the production process? [4]
9. What is the purpose of a bar gate graph? [2]
10. What is meant by buffer stock?[2]
11. What is the reorder level on a bar gate diagram?[2]
12. How can you work out the delivery time from a bar gate diagram?[2]
13. When managing stock what is meant by the "Just In Case" method? [1]
14. When managing stock what is meant by the "Just In Time" method? [1]
15. What are the advantages and disadvantages of the "Just In Time" method of stock management [6]
16. What is meant by procurement?[1]



## 2.3 Making Operational Decisions

17. State the differences between quality control and quality assurance [4]
18. How can controlling the production costs put a business at a competitive advantage?[3]
19. What are some of the skills that should be demonstrated as part of the sales process?[4]
20. What is meant by post sales service [1]
21. What are some of the reasons a business could lose its customer base?[3]
22. Why is it important to provide good customer service? [2]
23. What are the effects of providing a bad customer service?[4]
24. Which of the following is NOT shown on a bar gate diagram
  - Maximum Stock Level
  - Reorder Level
  - Current Stock Level
25. What is a characteristic of Job Production
  - Very cost efficient
  - Premium priced products
  - Increased output compared to other production processes
26. What is a characteristic of Quality Control
  - Performed at the end of the production process
  - Actioned during the design stages
  - Increased output



## Tips

For an essay style question use the following tips to ensure that you are maximizing your marks:

- Read through the question underlining any key points
- For these types of questions an extended answer is expected.
- Discuss both the advantages and disadvantages of the given context
- When discussing a point ensure that you contextualise your answer. This means give examples which relate to the scenario

Leslie started a business in the form of a bakery last year. She bakes her own products rather than buying them from a supplier. She currently employs 3 people in her bakery to help with the running of the business day to day. When each batch of products has been made, a selection is tested to ensure that the quality is of a satisfactory standard.

Evaluate the impacts of performing quality control at the end of the production process. [12]



## 2.4 Making Financial Decisions

### 2.4.1 Business Calculations

**Profit** – This is the amount of money that is left after you have deducted your expenses and costs from your revenue.

**Sales Revenue** – This is the money which is generated into the business through sales. E.g. if you sold 20 chocolate bars at 10p each you would have a total revenue of £2 (0.10 x 20).

**Fixed Costs** – These are the costs that **DO NOT** change even with a higher/lower production output. E.g. a fixed cost could be rent, you still need to pay rent even if you did not produce any products.

**Variable Costs** – These are costs that **DO** vary with output. e.g. a carpenter would need to buy more wood if he is producing more products

**Total Costs – Fixed Costs + Variable Costs**

### Types of Profit

#### Gross Profit

Gross Profit is the sales revenue minus the variable costs that are used to make the products. The formula is shown as:

**Sales Revenue – Variable Costs**

#### Net Profit

**Sales Revenue - (Fixed Costs + Variable Costs)**



### Profit Margins

You can also calculate the margin of profit by using two different formulas for gross and net profit margins. Both formulas are represented in a %.

By representing this in a % they can be compared, e.g. last years gross profit margin compared to this years

### Gross Profit Margin

**Gross Profit Margin =** 
$$\frac{\text{Gross Profit}}{\text{Sales Revenue}} \times 100$$

**Example:** Calculate the **gross profit margin** for a business that has sales of £4,000, variable costs of £2,000 and fixed costs of £500. Express your answer as a percentage.

### Answer:

Work out Gross Profit (formula in the first column):

GP = SR – VC

GP = 4000 – 2000

GP = 2000

Gross Profit Margin therefore:

(2,000 / 4,000) x 100

**50%**

So for every £1 you make 50p Gross profit

This would be useful when compared against other products to see which is the most profitable line. Many department stores that have 20,000 items plus might work in this way.



### Net Profit Margin

We can also calculate the net profit margin of a product. This is done using the following formula:

**Net Profit Margin =** 
$$\frac{\text{Net Profit}}{\text{Sales Revenue}} \times 100$$

**Example:** Calculate the **Net profit margin** for a business that has sales of £25,500, VC of £8,000 and FC of £14,490. Express your answer as a percentage.

### Answer:

Work out the net profit (formula in 1<sup>st</sup> column)

NP = SR - (VC + FC)

NP = 25500 – (22,490)

NP = 3010

NPM is therefore:

(3010 / 25,500) x 100

**11.80 %**

Using the formulas for net and gross profit can be used to identify which products are the most profitable



## 2.4 Making Financial Decisions

### Average Rate of Return (ARR)

Sometimes a business may need to decide upon several projects.

In order to identify which project will be the most profitable they can calculate the average rate of return.

The project which has the highest rate of return will be the project that the business decides to sell.

The formula to calculate the average rate of return is as follows:

$$\text{ARR} = \frac{\text{Average Annual Profit}}{\text{Initial Capital Outlay}} \times 100$$

The average annual profit is the average amount of profit made by a project over a given amount of years

The initial capital outlay is the amount of capital that has been invested into the project by the business



### Example

Project 1	£
Initial Capital Outlay	£150
Year 1 Annual Profit	£80
Year 2 Annual Profit	£70
Year 3 Annual Profit	£70
Year 4 Annual Profit	£65
Year 5 Annual Profit	£60

### Step 1 – Calculate the Average Annual Profit

Year 1 Annual profit £80

Year 2 Annual profit £70

Year 3 Annual profit £70

Year 4 Annual profit £65

Year 5 Annual profit £60

We add all the profits together and divide by the number of years (5)

$$(80 + 70 + 70 + 65 + 60) / 5 = \text{£69}$$

The average annual profit therefore is £69 for this particular project

### Step 2- Dividing By the Initial Capital Outlay

Once we have found out the average annual profit (£69 in this case) we divide the number by the initial capital outlay. This is the money that was initially invested in the project. In this case it was 150.

$$\begin{aligned} \text{Average Rate of Return} &= \frac{69}{150} \times 100 \\ &= 0.46 \times 100 \\ &= 46\% \end{aligned}$$

A business will use this formula when deciding upon dozens of projects. This reduces the risk of an unsuccessful venture (see example below).

	Project 1	Project 2	Project 3	Project 4
Initial capital outlay	-£120	-£95	-£80	-£160
Year 1 Annual profit	£80	£10	£30	£30
Year 2 Annual profit	£40	£40	£40	£50
Year 3 Annual profit	£40	£40	£30	£90
Year 4 Annual profit	£20	£60	£30	£80
Year 5 Annual profit	£40	£50	£20	£60
ARR %	36.67%	42.11%	37.50%	38.75%

## 2.4.2. Understanding Business Performance

### Quantitative Data (Quantity)

This type of data can be organised into graphs and charts. It is made up of numbers and businesses can look at these to make decisions quickly.

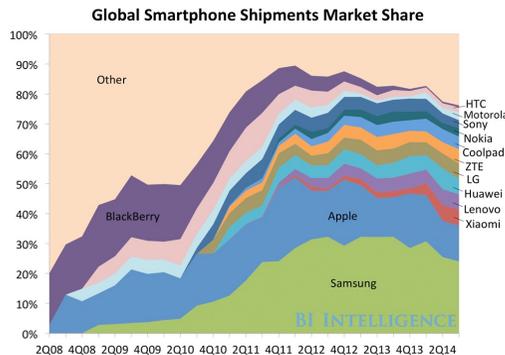
### Use & Interpretation Of Quantitative Business Data To Support, Inform & Justify Business Decisions

#### Information from Graphs

Charts and graphs are a good way to present data in a visual format.



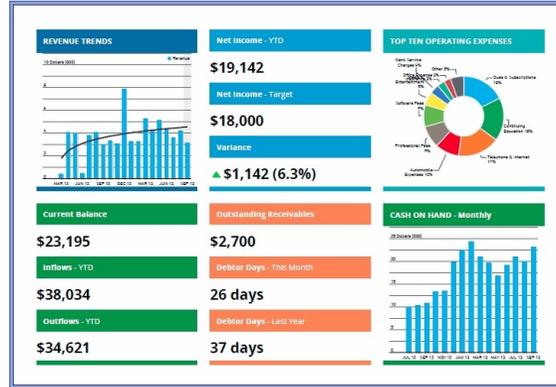
Businesses can use graphs to present an overview of data e.g. to the shareholders to present the market share.



## 2.4 Making Financial Decisions

### Financial Data

A business such as a LTD or PLC will need to produce their annual financial report every year. The use of a yearly report can be used as comparison to previous years as a measure of how the business is doing.



### Marketing Data

Marketing data can come in the form of market research. The data would be the responses to the questionnaires.

The data would be analysed by the business and decisions would be made based upon this data

### Market Data

Market data can also apply to the trading of shares on the stock market. PLCs will want to see if their share price has increased or decreased.



## The Use And Limitations Of Financial Information In:

### Understanding Business Performance

Financial information which is published can be open for anyone to view. This means people can read into how a business is doing and make their own assumptions.

Items such as a balance sheet (snapshot of what the business owns and owes) and an income statement (shows if the business made a profit / loss in the previous years) are fully accessible.

### Making Business Decisions.

**Owners / Mangers** – use financial information to make long term decisions e.g. investing in new machinery

**Suppliers**- Use financial information to see if a business is trustworthy of credit

**Banks**- They would use financial information to decide upon the amount to lend a company and if to let them borrow in the first place.

**Government** – They would use the financial information to ensure they are being paid the right amount of tax

### Limitations

Financial information does not provide the complete picture. They can be historical and therefore not very useful for planning.

Financial information also does not take into account qualitative factors as it is all based around numbers.

## Revision Questions

These questions are based around the previous slides. Test your knowledge to see if you can answer them!

1. What is meant by revenue? [1]
2. What is meant by profit? [1]
3. What is meant by a fixed cost? [1]
4. What is meant by a variable cost? [1]
5. What is Gross Profit?[1]
6. What is the formula to calculate gross profit?[1]
7. What is Net Profit?[1]
8. What is the formula to calculate the net profit margin?[1]
9. Why would a business make a comparison between the profit margins of a set of products [3]
10. Calculate the gross profit margin for a business that has sales of £2,000, variable costs of £1,000 and fixed costs of £300. Express your answer as a percentage. [3]
11. Calculate the Net profit margin for a business that has sales of £20,000, VC of £3,000 and FC of £1,000. Express your answer as a percentage. [3]
12. What is the formula for the average rate of return? [1]
13. Why would a business use the average rate of return when deciding upon a project? [2]

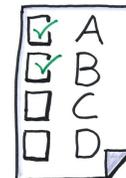


## 2.4 Making Financial Decisions

14. Calculate the average rate of return for the following project

Initial Capital Outlay	£100
Year 1 Annual Profit	£80
Year 2 Annual Profit	£90
Year 3 Annual Profit	£85
Year 4 Annual Profit	£75
Year 5 Annual Profit	£60

15. What are some of the risks of a business not calculating the average rate of return for a project?[3]
16. How can a business use quantitative data?[2]
17. How can a business make use of its financial data?[2]
18. How can the following stakeholders of a business use their financial data?
- Owners / Mangers [2]
  - Suppliers [2]
  - Banks [2]
  - Government [2]
17. What are the limitations of only using financial information?[2]



## Tips

For an essay style question use the following tips to ensure that you are maximizing your marks:

- Read through the question underlining any key points
- For these types of questions an extended answer is expected.
- Discuss both the advantages and disadvantages of the given context
- When discussing a point ensure that you contextualise your answer. This means give examples which relate to the scenario

18. Below is a set of projects that a business is considering investing in. Using your business knowledge suggest which project the business should invest in stating your reasons why. [10]

Initial Capital Outlay	£100	£500	£1000
Year 1 Annual Profit	£80	£200	£250
Year 2 Annual Profit	£90	£145	£185
Year 3 Annual Profit	£85	£155	£175
Year 4 Annual Profit	£75	£145	£170
Year 5 Annual Profit	£60	£165	£165



## 2.5.1 Organisational Structures

**Organisational Structure** – This is the way in which a business is structured through its employees via their job roles and responsibilities.

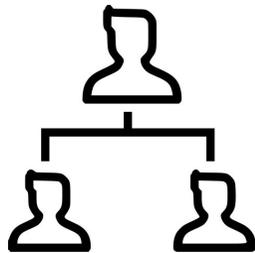
A business will have a structure so that people can communicate better in a business as well as employees understanding their role and responsibility.

**Chain Of Command** – This is the flow of authority through the business. People higher up the chain have more power and responsibility. They can delegate tasks to their subordinates (people lower in the chain)

**Span Of Control** – This refers to how many people are working for you. E.g. a site manager has 6 builders working for them. Therefore their chain of command is 6

**Delegation**- This is when a task is given to a subordinate in an organisation. There will often be a timescale for this task to be completed.

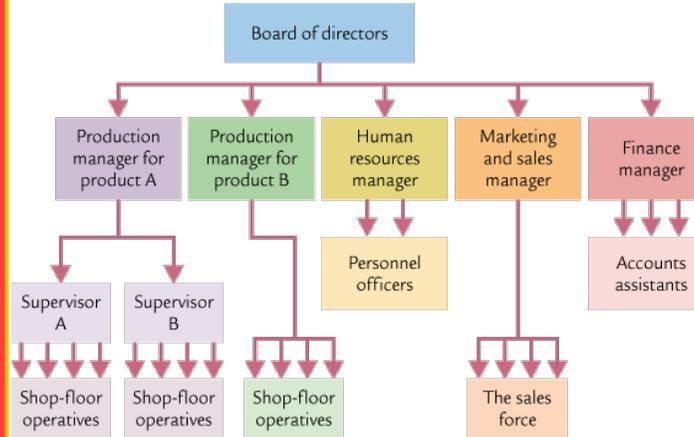
**Subordinate**- This is an employee who is in a job which is lower ranked. A manager can delegate tasks to their subordinates.



## 2.5 Making Human Resource Decisions

### Hierarchical Structure

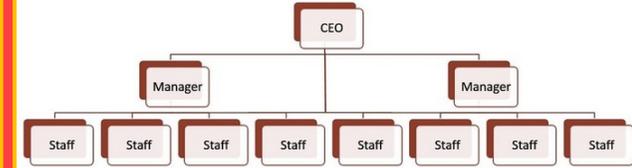
Most organisations have a hierarchy structure, the further up the hierarchy an employee is the more responsibility they have. Below is an example:



Advantages	Disadvantages
Lots of opportunities for promotion	Long chain of command
Smaller spans of control. Get to know your employees strengths	Communication is slow from top to bottom
Knowing subordinates allows you to delegate tasks	Expensive to implement as there are more managers and supervisors

### Flat Structure

Some companies make use of a flat structure, businesses such as a restaurant have a wide span of control and a short chain of command. This allows information to flow quickly.

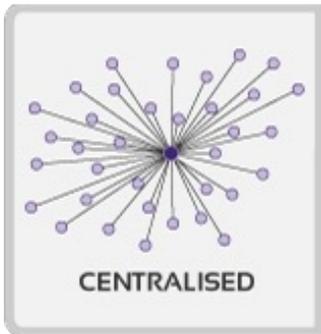


Advantages	Disadvantages
Smaller chains of command mean it is easier to communicate between different levels	Staff can be overworked as there is less supervision. This can lead to demotivation and increased staff for the members of staff
More delegation, staff are given more responsibility which means they get to work to their full potential	Can create confusion amongst staff if a manager is not present. Staff may not know their roles and responsibilities
Fewer levels of management encourage a quicker decision making	Wide span of control means that managers may have too many staff to manage

## Centralised Structure

A centralised structure leaves decision making to the employees higher up the hierarchy (senior managers)

Advantages	Disadvantages
Easier to implement policies for the whole business	Senior leaders may not know what's best for the operations that occur lower down the chain of command
Prevents other parts of the business becoming too independent	Team leaders and floor staff more likely to understand customer needs
Easier to coordinate items such as budgets	Lack of authority for managers further down can be demotivating
Quicker decision making at the top of the hierarchy. Do not need consult staff lower down	Less flexible decision making lower down. Staff at lower levels will not be able to make quick decisions

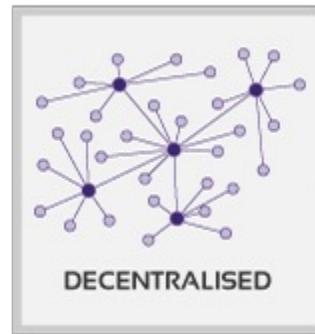


## 2.5 Making Human Resource Decisions

### Decentralised Structure

Decisions in this structure are spread out to include more members of staff such as managers e.g. across the company from different locations

Advantages	Disadvantages
Decisions are made which are closer to customer needs. Could result in a better service.	Decision making can take a longer time and not be as strategic
Ability to respond to local issues.	Harder to ensure that there is a consist policy at each location in a business
Improved staff motivation as they are involved in decision making process	Diseconomies of scale e.g. duplication of roles
Can be a way of developing staff and training them for management positions.	Can lead to confusion as to who is responsible in a crisis situation



### Importance of Effective Communication

Communication can take many forms in business ranging from emails, phone calls, texts, social media & video conferencing just to name a few.

Poor communication can have major impacts on efficiency in the workplace. Once example would be if an email is too complex or not clear enough the recipients may not understand what is being expected. This would lead to a delay in the progression of a task.

### Effects of Poor Communication

On the employee	On the business
Poor performance	Increased costs
Demotivation	Higher staff turnover
Poor relationships with peers	Poor employee relationships
Increased levels of stress	Lower productivity levels



## Impacts Of Insufficient Or Excessive Communication

If communication is poor employees will lack enthusiasm at work.. This leads to demotivated staff who are not performing at their most productive.

### Barriers to Communication

There are some barriers that exist in communication, this means that a message may not be received correctly due to a barrier. Some examples are below.

Barrier	Impact
Noise	Unclear as to what was said
Jumping to conclusions	Receiver not correctly receiving message as they assumed they understood what was mean
Lack of interest	Receiver is disinterested
Information overload	Giving people too much information
Lack of feedback	Receiver not knowing where to improve
Distorted message	Unclear/inaccurate message

## 2.5 Making Human Resource Decisions

### Different Ways of Working

Way of working	Explanation
Full Time	Working at a place of work normally above 35 hours.
Part Time	A worker who works less time than a full time worker / hours. Benefits would be issued on a pro rata basis to this workers.
Flexible (Flexi Time)	A way of working that suits an employees needs. E.g. working from home or starting late and finishing later in the day.
Permanent	Permanent position in a company, often on a salary. Workers will be employed unless they leave, are fired or made redundant
Temporary	Temporary job to cover a certain period. E.g. the Christmas period as more staff may be needed during this time.
Freelance	A self employed worker that works on a contract to contract basis. They set their own rates of pay. E.g. a cameraman

### The Impact of Technology on Ways of Working

Technology has had major impacts on the way people work. It has heled to organise the work environment by providing payroll, stock control and other software which allows for everyday running of a business.

Computers have made documentation such as invoices and letters easy to produce.

Phone systems allow for conferencing calling between multiple participants.

People can also make use of video conferencing to have meetings with their peers. This saves on plane fares, fuel and is more cost effective.

Also people can work remotely from home enabling them to fit their work around their family commitments and work on their own hours. There is also less travel involved and no need to commute to the workplace.

The disadvantages of remote working include no socialisation with other workers and it can be hard to switch off from work. Often workers can lack discipline and become lazy.



## 2.5.2 Effective Recruitment

### Different Roles & Responsibilities

#### Directors

- The board of directors make strategic decisions
- They ensure a business is successful for all the stakeholders involved
- They are in charge of when to provide dividends to their shareholders. They can withhold dividends if a low profit is made as this can cause issues for the business in the long term

#### Senior Managers

- They operate at the top of the business and make tactical decisions on a day to day basis
- They are appointed by the board of directors to help meet objectives.

#### Operational Staff

- They take care of the day to day running of the business.
- They are not involved in any strategic management decisions

#### Support Staff

- They are staff that carry out a specific role which helps the business function e.g. IT support.



## 2.5 Making Human Resource Decisions

### How A Business Recruits People

The process of recruiting a new employee follows these steps:

1. The business identifies the need for a new member of staff e.g. this may be because someone is leaving or there is an increased workload
2. The business writes a job description
3. The business writes a person specification
4. The job is advertised
5. Candidates fill in application forms and the successful ones are interviewed and a selection is made.

### Job Description

- Describes the roles and responsibilities of a role
- It would also describe what the employee would do on a day to day basis

### Person Specification

- Outlines what qualities the employer is looking for this can include:
  - Persona qualities
  - Skills
  - Qualifications
  - Experience

### Application form

When a candidate would like to apply for a job they fill in an application form. This allows an employer to compare applicants and identify which ones are suitable for the position.



### CV

- This is a summary of a candidates working life to date, this will summarise all their experiences so employers can get an overview of their working life.

### Recruitment Methods

#### Internal Recruitment

- This is recruiting staff that already work in a business
- It can be applications for a promotion
- These tend to be advertised via notice boards and staff emails.
- These candidates are known to the business and require less training, therefore it is less expensive to train them. There is also less advertising costs.*



#### External Recruitment

- A vacancy may be advertised externally if there is no suitable candidates in a business already
- Existing employees may not possess the skills required to fulfil this role
- New candidates can bring enthusiasm and new ideas to a business. They are fresh and are not bored of working at the workplace so will likely be more productive.*

### 2.5.3. Effective Training & Development

**Training** – Teaching an employee a new skill, or developing an existing skill. E.g. sales techniques

Formal Training	Informal Training
Outside experts brought in to teach the training	Training takes place on the job.
Usually away from the workplace	Trained by other staff members
Expensive	No costs, however productivity may decrease
Strict learning schedules	Training is performed quicker
Can be awarded a certificate to show presence	

### Self Learning

This is studying by yourself, e.g. an employee may carry out an online course to improve their skills e.g. to speak a foreign language or to develop their speaking skills



## 2.5 Making Human Resource Decisions

### Ongoing Training

This is training which is used to keep up which changes in the business environment e.g.:

- Keep up with new technology
- Stay ahead of competition
- Identify weaknesses
- Keep up with industry changes

### Target Setting

A business can ensure that their goals are achievable by setting SMARTER targets. These are:

- Specific** – e.g. learning how to use Microsoft Excel
- Measurable** – e.g. Create Excel spreadsheet without help
- Achievable** – Target must be realistic
- Relevant** – Must be relevant to the employees role
- Timely** – A time frame for the target to be met
- Extend Capabilities** – Learning beyond what you know
- Rewarding** – targets should be fulfilling to accomplish

### Performance Reviews

Employees will have a formal meeting about their performance. They will set out targets and training needs for the employees so they can develop their skills.

It is also an opportunity for an employee to feedback to their supervisors about any issues they may have.



## Why Businesses Train & Develop Employees

Businesses will train employees for the following reasons:

1. Staff training means that staff will feel valued in the workplace
2. This will lead to the staff being more motivated and productivity will increase.
3. As employees are more motivated retention rates within the business will improve (retention is the amount of staff that are leaving your business.)

### Retraining to Use New Technology

If new staff need to use new technology in the workplace they will need to be retrained.

As soon as people have been retrained it should increase the productivity.

There may be some resistance to change however from the established members of staff



### 2.5.4. Motivation

Motivation is the reasons which employees would act a certain way. Motivation can be related to the productivity of the workers.

#### Importance of Motivation in the Workplace

There are various ways in which a business can motivate its employees. By doing so they are hoping to achieve the following:

- ❑ **Attracting Employees-** If employees see a good workplace they will want to work there.
- ❑ **Retaining Employees** – Employees would want to stay in their job if they are motivated and happy. If employees leave a business it would cost considerably more to recruit somebody new and train them
- ❑ **Productivity** – If workers are motivated they will be more productive in the workplace. They will work harder and be more creative. Making them more efficient.



## 2.5 Making Human Resource Decisions

### How Businesses Motivate Employees

Businesses can motivate their employees through financial and non financial methods.

Businesses will want to motivate their employees so they remain as productive as possible. If workers are motivated it is unlikely that they will leave their position and the business would not have to recruit somebody new.

#### Financial Methods

These are methods of motivation which are based around money and payments. Some examples of financial methods of motivation are shown in the next column.



#### Non Financial Methods

These are methods of motivation that are not based around money. These methods will be used to motivate workers without increasing pay or providing any bonuses.



### Examples of Financial & Non Financial Methods

Financial	Non Financial
<b>Remuneration</b> – Paying workers for their service. This would be a salary or wage	<b>Job Rotation-</b> employees rotated between jobs. Relieves boredom but training costs could be higher
<b>Bonuses-</b> When targets are met the employees are rewarded with a bonus (extra pay)	<b>Job Enrichment</b> – workers given more challenging tasks. This provides more responsibility but workers may feel under pressure
<b>Commission</b> – Workers received a reward for each sale e.g. 5% of all sales they make	
<b>Promotion-</b> Increased responsibilities and pay to help keep employees motivated	<b>Autonomy</b> – Allows workers to make their own decisions. Employees will feel more ownership of their
<b>Fringe Benefits</b> – these are perks the employees receive while employed. E.g. Company cars, health insurance and free meals.	

## Revision Questions

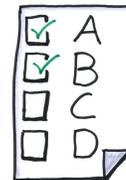
These questions are based around the previous slides. Test your knowledge to see if you can answer them!

1. What is meant by the term Organisational Structure [1]
2. What is meant by the term Chain Of Command [1]
3. What is meant by the term Span Of Control [1]
4. What is meant by the term Delegation [1]
5. What is meant by the term Subordinate [1]
6. Describe what is meant by a hierarchical structure. What are its advantages and disadvantages [8]
7. Describe what is meant by a flat structure. What are its advantages and disadvantages [8]
8. Describe what is meant by a centralised structure. What are its advantages and disadvantages [8]
9. Describe what is meant by a decentralised structure. What are its advantages and disadvantages [8]
10. Why is it important to have effective communication?[3]
11. What are some effects of poor communication? [6]
12. What is meant by a barrier to communication? [1]
13. State 3 barriers to communication and their impact [6]
14. State 3 different ways in which people can work[3]



## 2.5 Making Human Resource Decisions

15. State the roles and responsibilities of the following:
  - Directors [2]
  - Senior Managers [2]
  - Operational Staff [2]
  - Support Staff [2]
16. What is meant by a CV [1]
17. What is meant by a Job Description [1]
18. What is meant by a Person Specification [1]
19. What is the difference between internal and external recruitment? [4]
20. What is meant by training [1]
21. What are the differences between informal and formal training? [6]
22. What is meant by self learning? [1]
23. What is meant by ongoing training ?[1]
24. What is meant by a performance review? [1]
25. How can a business ensure that the targets set are appropriate?[6]
26. Why would a business train and develop its employees?[2]
27. Why is it important to motivate your employees?[3]
28. What are some financial ways to motivate an employee?[4]
29. What are some non-financial ways to motivate an employee?[4]



## Tips

For an essay style question use the following tips to ensure that you are maximizing your marks:

- Read through the question underlining any key points
- For these types of questions an extended answer is expected.
- Discuss both the advantages and disadvantages of the given context
- When discussing a point ensure that you contextualise your answer. This means give examples which relate to the scenario

How has technology impacted on the different ways of working?[12]

